ANNUAL REPORT

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

U.S. Treasury Dept.

FOR THE FISCAL YEAR ENDED JUNE 30, 1974

DEPARTMENT OF THE TREASURY

DOCUMENT NO. 3263

Secretary

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THE SECRETARY OF THE TREASURY
WASHINGTON

October 9, 1974

Dear Sirs:

I have the honor to transmit to you the annual report on the state of the finances of the United States Government for the fiscal year ended June 30, 1974. This submission is in accordance with 31 U.S.C. 1027.

Sincerely yours,

William E. Simon

President of the Senate

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

Secretaries, Deputy Secretary, Under Secretaries, General Counsels, Assistant Secretaries, Deputy Under Secretaries, and Treasurers of the United States serving in the Department of the Treasury from January 21, 1973, through June 30, 1974[1]

Term of service: From	Term of service: To	Officials
		Secretaries of the Treasury:
June 12, 1972	May 8, 1974	George P. Shultz, New York.
May 8, 1974	--------------	William E. Simon, New Jersey.
		Deputy Secretary:
Jan. 22, 1973	May 8, 1974	William E. Simon, New Jersey.
		Under Secretary for Monetary Affairs:
Jan. 27, 1969	--------------	Paul A. Volcker, New Jersey.
		Under Secretaries (Counselors):[2]
June 12, 1972	Mar. 17, 1973	Edwin S. Cohen, Virginia.
Mar. 15, 1974	--------------	Jack F. Bennett, Connecticut.
		General Counsels:
July 1, 1970	June 1, 1973	Samuel R. Pierce, Jr., New York.
June 2, 1973	--------------	Edward C. Schmults, New York.
		Assistant Secretaries:
Apr. 1, 1969	Jan. 21, 1973	Eugene T. Rossides, New York.
Dec. 12, 1971	--------------	Edgar R. Fiedler, Maryland.
Apr. 11, 1972	--------------	Warren F. Brecht, Michigan.
June 12, 1972	--------------	John M. Hennessy, Massachusetts.
Aug. 18, 1972	--------------	Frederic W. Hickman, Illinois.
Jan. 22, 1973	Feb. 1, 1974	Edward L. Morgan, Arizona.
May 8, 1974	--------------	David R. Macdonald, Illinois.
May 28, 1974	--------------	Frederick L. Webber, Virginia.[3]
June 24, 1974	--------------	Gerald L. Parsky, Washington, D.C.[3]
		Deputy Under Secretaries:
Aug. 18, 1972	Mar. 14, 1974	Jack F. Bennett, Connecticut.
Aug. 22, 1972	July 4, 1973	James E. Smith, Virginia.
Aug. 3, 1973	Apr. 13, 1974	William L. Gifford, New York.
		Fiscal Assistant Secretary:
June 15, 1962	--------------	John K. Carlock, Arizona.
		Treasurers of the United States:[4]
Dec. 17, 1971	Feb. 14, 1974	Romana Acosta Banuelos, California.
June 21, 1974	--------------	Francine Neff, New Mexico.

[1] For officials from Sept. 11, 1789, to Jan. 20, 1973, see exhibit 81, 1973 Annual Report.
[2] 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.
[3] Act of May 18, 1972, provided for 2 Deputy Under Secretaries, to be designated Assistant Secretaries by the President as desired.
[4] Treasury Department Order 229, Jan. 14, 1974, raised the position of Treasurer of the United States from the operating level of the Department to the Office of the Secretary.

PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS OF THE DEPARTMENT OF THE TREASURY AS OF JUNE 30, 1974

Secretary of the Treasury	William E. Simon
Deputy Secretary of the Treasury	(Vacancy)
Under Secretary for Monetary Affairs	Paul A. Volcker
Under Secretary	Jack F. Bennett
General Counsel	Edward C. Schmults
Office, Secretary of the Treasury:	
Executive Assistant to the Secretary	Ursula Farrell (acting)
Deputy Executive Assistant to the Secretary and Director, Executive Secretariat	Oscar M. Mackour
Confidential Assistant to the Secretary	Barbara A. Jensen (acting)
Senior Consultant	Paul W. McCracken
Office, Deputy Secretary of the Treasury:	
Executive Assistant to the Deputy Secretary	(Vacancy)
Special Assistant to the Deputy Secretary	Alan M. Arsht
Special Assistant to the Deputy Secretary	R. David Ranson
Office, Under Secretary for Monetary Affairs:	
Assistant Secretary (International Affairs)	(Vacancy)
Deputy Assistant Secretary for International Monetary and Investment Affairs	Sam Y. Cross
Deputy Assistant Secretary for Development Finance Policy	Richard E. Larsen
Deputy Assistant Secretary for Research	Thomas D. Willett
Deputy to the Assistant Secretary for International Monetary Affairs	George H. Willis
Inspector General for International Finance	Ralph Hirschtritt
Deputy to the Assistant Secretary	Donald E. Syvrud
Assistant Secretary (Trade, Energy, and Financial Resources Policy Coordination)	Gerald L. Parsky
Deputy Assistant Secretary for Trade and Raw Materials Policy	Howard L. Worthington
Deputy Assistant Secretary for Energy Policy	(Vacancy)
Deputy Assistant Secretary for Financial Resources Policy Coordination	(Vacancy)
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
Fiscal Assistant Secretary	John K. Carlock
Deputy Fiscal Assistant Secretary	David Mosso
Assistant Fiscal Assistant Secretary	Sidney Cox
Director, Operations, Planning and Research	Lester W. Plumly
Treasurer of the United States	Francine Neff
Special Assistant to the Secretary (National Security)	William N. Morell
Deputy Special Assistant to the Secretary	Gerald W. Nensel
Special Assistant to the Secretary (Debt Management)	Edward M. Roob
Director, Office of Debt Analysis	Edward P. Snyder

Office, Under Secretary:	
Assistant Secretary (Administration)	Warren F. Brecht
Deputy Assistant Secretary for Administration and Director, Office of Management and Organization	J. Elton Greenlee
Director, Office of Administrative Programs	Robert R. Fredlund
Director, Office of Audit	Wilbur R. DeZerne
Director, Office of Budget and Finance	Edward J. Widmayer
Director, Office of Personnel	Arch S. Ramsay
Director, Office of Computer Science	Bruce M. Beardsley
Director, Office of Equal Opportunity Program	David A. Sawyer
Deputy to the Assistant Secretary	John C. Gartland
Assistant Secretary (Legislative Affairs)	Frederick L. Webber
Special Assistant to Assistant Secretary	James H. Hogue
Special Assistant to Assistant Secretary	Douglas P. Bennett
Assistant Secretary (Enforcement, Operations, and Tariff Affairs)	David R. Macdonald
Deputy Assistant Secretary for Enforcement and Operations	James B. Clawson
Director, Office of Operations	William F. Hausman
Director, Office of Law Enforcement	Robert A. Merchant (acting)
Chief, Interpol (National Central Bureau)	Kenneth S. Giannoules
Director, Office of Foreign Assets Control	Stanley L. Sommerfield (acting)
Deputy Assistant Secretary for Tariff Affairs	(Vacancy)
Director, Office of Tariff Affairs	Ben L. Irvin
Special Assistant to the Secretary (Public Affairs)	(Vacancy)
Deputy Special Assistant to the Secretary	Alan B. Wade
Director, Office of Revenue Sharing	Graham W. Watt
Office, General Counsel:	
Deputy General Counsel	Donald L. E. Ritger
Assistant General Counsel and Chief Counsel, Internal Revenue Service	Meade Whitaker
Assistant General Counsel	Wolf Haber
Assistant General Counsel	Michael Bradfield
Assistant General Counsel	Hugo A. Ranta
Special Assistant to the General Counsel	Elting Arnold
Director of Practice	Leslie S. Shapiro
Assistant Secretary (Tax Policy)	Frederic W. Hickman
Deputy Assistant Secretary for Tax Legislation	(Vacancy)
Deputy Assistant Secretary for Tax Analysis	Oswald H. Brownlee
Associate Director, Office of Tax Analysis	Emil M. Sunley
Tax Legislative Counsel	Ernest S. Christian, Jr.
International Tax Counsel	Robert J. Patrick, Jr.
Director, Office of Industrial Economics	Karl Ruhe
Deputy to the Assistant Secretary (International Tax Policy)	Nathan N. Gordon

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

Director	Rex D. Davis
Deputy Director	William R. Thompson
Assistant Director (Administration)	William J. Rhodes
Assistant Director (Criminal Enforcement)	John F. Corbin, Jr.
Assistant Director (Inspection)	Jarvis Brewer
Assistant Director (Regulatory Enforcement)	Lawrence S. 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	Kenneth A. DeHart (acting)

BUREAU OF GOVERNMENT FINANCIAL OPERATIONS

Commissioner	David Mosso
Deputy Commissioner	Dario A. Pagliai
Assistant to the Commissioner	Orion H. Tomkinson
Assistant Commissioner, Administration	George L. McConville
Assistant Commissioner, Banking and Cash Management	Sebastian Fama
Assistant Commissioner, Comptroller	Steve L. Comings
Assistant Commissioner, Government-wide Accounting	Gerald Murphy
Assistant Commissioner, Disbursements and Claims	(Vacancy)

BUREAU OF THE MINT

Director	Mary T. Brooks
Deputy Director	Frank H. MacDonald
Assistant Director (Administration)	Arnold Bresnick
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
Assistant Director (Investigator Training)	John P. S. Stemple
Assistant Director (Police Training)	Alvin C. Turner
Assistant Director (Administration)	David W. McKinley
Assistant Director (Educational Support)	Michael Martinez

INTERNAL REVENUE SERVICE

Commissioner	Donald C. Alexander
Deputy Commissioner	William E. Williams
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)	Robert H. Terry
Assistant Commissioner (Stabilization)	Edward F. Preston
Assistant Commissioner (Planning and Research)	Dean J. Barron
Assistant Commissioner (Technical)	Lawrence B. Gibbs
Chief Counsel	Meade Whitaker

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Comptroller of the Currency	James E. Smith
Executive Assistant	Michael E. Burns
Special Assistant (Special Projects)	Richard D. Chotard, Jr.
First Deputy Comptroller	Justin T. Watson
Deputy Comptroller (Administration)	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 Banking)	Robert A. Mullin
Chief Counsel	Robert Bloom

UNITED STATES CUSTOMS SERVICE

Commissioner of Customs	Vernon D. Acree
Deputy Commissioner of Customs	(Vacancy)
Assistant Commissioner, Office of Administration	John A. Hurley
Assistant Commissioner, Office of Investigations	George C. Corcoran
Assistant Commissioner, Office of Operations	Glenn R. Dickerson
Assistant Commissioner, Office of Regulations and Rulings	Leonard Lehman
Assistant Commissioner, Office of Security and Audit	William A. Magee, Jr.
Chief Counsel	Saul Slomiak
Special Assistant (Enforcement Support)	Alfred R. DeAngelus

UNITED STATES SAVINGS BONDS DIVISION

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

UNITED STATES SECRET SERVICE

Director	H. Stuart Knight
Deputy Director	Lilburn E. Boggs
Assistant Director (Administration)	Francis A. Long
Assistant Director (Inspection)	Myron I. Weinstein
Assistant Director (Investigations)	Burrill A. Peterson
Assistant Director (Protective Forces)	Clinton J. Hill
Assistant Director (Protective Intelligence)	Thomas J. Kelley

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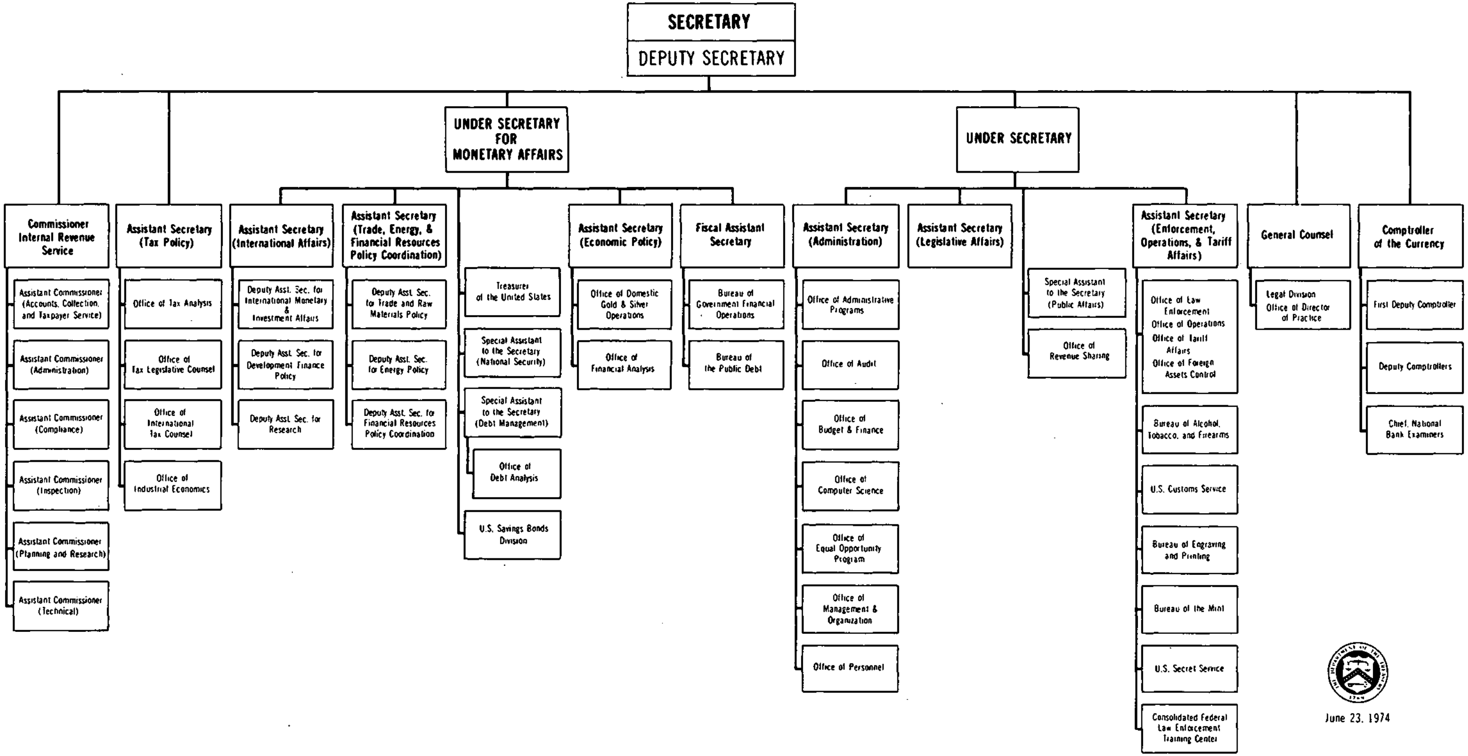
ORGANIZATION OF THE DEPARTMENT OF THE TREASURY



June 23, 1974

INTRODUCTION

This brief introduction reviews the major economic developments, both domestic and international, which affected major Treasury areas of interest and responsibility during the course of fiscal 1974. 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.

The Inflation Problem

Inflation dominated the economic and financial scene during fiscal 1974. Inflation in the United States was not only a serious domestic problem, it was part of a worldwide siege of inflation. Both the domestic and international economic situations were complicated by the Arab oil embargo and the subsequent success of the major oil-exporting nations in enforcing—at least temporarily—a massive increase in their receipts from the rest of the world.

Domestically, the fiscal year opened against the backdrop of the reimposition of a wage-price freeze in June 1973. Freeze II was imposed in response to rapidly rising prices of food and raw materials. During the last half of fiscal 1973, wholesale prices of farm products, processed foods, and feeds had risen at nearly a 50-percent annual rate and wholesale prices of consumer foods rose at about a 25-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 3 percent rates characteristic of immediately preceding months.

While the freeze, and Phase IV of the wage-price control program which followed, achieved some temporary dampening of cost-price pressures, no lasting benefit was apparent. Congress allowed the enabling legislation to lapse, and wage-price controls were phased out by April 30, 1974.

By the end of fiscal 1974, the Consumer Price Index was rising at about an 11-percent annual rate, even more rapidly than before the June 1973 freeze. The major change was a shift in the locus of inflationary pressures into the industrial area during the course of the fiscal year. Wholesale prices of farm products and processed foods and feeds actually fell during the last 4 months of the fiscal year by about 10 percent, in marked contrast to their rapid rise earlier. Wholesale prices of industrial commodities, on the other hand, rose at a very rapid rate during the last half of the fiscal year.

By the end of the fiscal year, the outlook for an early return to satisfactory price performance was uncertain. Prices of industrial raw materials showed signs of having peaked. However, bad weather had cut the corn and soybean crops in the Middle West which threatened higher food prices in 1975. Meanwhile, workers were seeking much larger wage increases because of rapidly rising prices. The real spendable earnings of production employees actually fell by several percentage points during the fiscal year. Some of the ingredients for a renewed wage-price spiral were present but the threat was reduced by the fact of a softening in the economy which had taken place during the fiscal year. The most probable outcome—and the objective of domestic economic policy—was a gradual, although perhaps at times irregular, process of disinflation.

This most serious peacetime inflation in the history of the United States seemed to be the result of two main causes. First, and most recently, there had been a series of severe temporary shocks that originated mostly outside the economy of the United States. These included the worldwide agricultural crop failures of 1972, enormous pressures on the prices of internationally traded raw materials, two devaluations of the dollar, and the quadrupling of international oil prices that followed the Arab oil embargo. In addition, the end of the controls program was operating in the closing months of fiscal 1974 as an additional temporary force to raise some prices and wages faster than otherwise would have been the case.

The second, and more persistent, cause of inflation was general economic policies that had been far too stimulative for a long period of time. On the fiscal side, Federal expenditures rose at roughly a 6-percent annual rate from 1955 to 1965. From 1965 to 1974, however, Federal expenditures surged to a 10-percent annual rate of growth. Second, monetary policy also broke out of a previously established pattern. From 1955 to 1965 the money supply grew at a 2½-percent annual rate. From 1965 to 1974 the growth rate more than doubled to a 6-percent annual pace. Excessive budget deficits and excessive growth of money and credit prevented the food and fuel and other temporary price pressures from running their course and fading away. Instead, a relatively high rate of inflation had been deeply embedded into the economic system.

The correct course of action was the application of fiscal and monetary discipline to keep the economy operating well within the limits of its capacity to produce. By the close of fiscal 1974, some signs of reduced pressure of demand began to appear, but there were also selective shortages of supplies and industrial capacity, particularly in the primary processing industries. The picture was mixed and clear signs of relief from inflationary pressure were not yet apparent. However, continuation of a substantial degree of fiscal and monetary restraint appeared to be essential. It was also possible that restraint might have to be supplemented by additional policy actions to assure that the burdens of adjustment were shared as equitably as possible and to guard against any excessive financial dislocations.

The Longer Run Economic Outlook

The continuing high rate of inflation, which dominated domestic economic events during the fiscal year, also threatened to complicate the longer run economic outlook. It was readily apparent that there had been developments in the economy that would call for capital formation at a considerably higher rate than previously. There were enormous capital requirements to improve the housing stock, provide new systems of urban transportation, rebuild some basic industries, clean up the environment, and especially to achieve the goals of Project Independence. While the entire range of issues was still under study within the administration at the close of the fiscal year, there was a strong presumption that the economy would need to allocate a larger proportion of its output to capital formation in the future than had been the case in the recent past.

Since 1960, plant and equipment spending in the United States was only 15 percent of total output, whereas France invested 18 percent, Germany 20 percent, and Japan 27 percent. For gross domestic investment, which includes inventories, housing, and public investment, the proportions in 1973 were: United States, 17 percent; France, 26 percent; Germany, 25 percent; and Japan, 37 percent.

The continuation of high rates of inflation posed a serious threat to the financing of future capital requirements. There was no extensive experience with rapid peacetime inflation in the United States upon which precise estimates could be based, but it seemed likely that incentives for personal saving would be drastically eroded in a prolonged inflationary process. Corporate saving was also likely to be affected adversely because conventional accounting techniques lead to systematic overstatement of profits during a period of inflation. For example, between 1965 and 1973 corporate retained earnings adjusted for the effects of inflation on inventory profits and depreciation allowances actually declined from about $17 billion to some $3 billion.

A first essential requirement for strong longrun economic performance was, therefore, better control over inflation. Otherwise the outlook for capital formation would suffer, savings incentives would be undercut, investment would be directed into unproductive uses, and financial mechanisms would be strained. Control of inflation was necessary both to stabilize the economy in the short run and to promote the achievement of satisfactory rates of economic growth in the long run.

Even with inflation brought under better control, the scale of future capital requirements appeared to call into question the adequacy of longrun savings in the U.S. economy. Increased investment requirements for energy and other rapidly growing activities could, in principle, take place at the expense of conventional capital requirements. Some diversion and substitution would take place through the operation of normal market forces and more could be sought through public policy. But seeking to accommodate all of the new capital requirements within the constraint of the relatively low investment ratios that had ruled in the past might not lead to desirable results. It seemed questionable, for example, whether national housing goals could be met successfully in such a case.

It was probable, therefore, that it would be necessary over the longer run to pursue policies that would increase the share of total economic output going into investment. This would mean, in practice, that some consumption or Government expenditure would have to be displaced in favor of the added investment. A variety of steps might be taken to promote such a shift in the allocation of national output.

One important Government policy worth consideration would be an alteration in budget policy. The general goal in the postwar period had been to achieve a balanced budget when the economy is prosperous. If that goal were shifted to the achievement of a significant surplus, the flow of savings available for private investment would be increased because the Government would reduce its own claims on the capital markets. Such a shift in policy would, of course, need to be examined very carefully in terms of its impact on general economic performance in addition to the presumed effect upon the saving-investment process and the capital markets.

Another possible option under study would provide new investment incentives for industry through the tax system. Such an approach always raises difficult questions, but there is an accumulation of experience which offers some guidance as to the probable effects upon investment. Still other alternatives would need to be examined. The general objective would be additional encouragement for saving and investment in the interest of better longrun economic performance.

Domestic Economic Developments

There was a marked contrast in the general economic situation between the first and second halves of the fiscal year. In the first half of the fiscal year, real output rose at about a 2-percent annual rate, down from the rapid 6½-percent growth rate experienced in fiscal year 1973, but still a relatively strong performance given the capacity and skilled labor constraints that were being encountered. Meanwhile, the implicit GNP price deflator was rising at about an 8½-percent annual rate.

Developments in the second half of the fiscal year were strongly affected by the Arab oil embargo and the quadrupling of international oil prices. Real growth turned negative at a 7-percent annual rate in the first quarter of calendar year 1974 but declined only fractionally in the succeeding quarter—the last quarter of fiscal 1974. Indeed, on the gross domestic product basis real output actually rose slightly in the last quarter of fiscal 1974. The implicit GNP price deflator rose at roughly an 11-percent annual rate in the second half of the fiscal year.

The oil embargo and consequent adjustments tended to magnify the extent of the slowdown in economic activity that was actually taking place. Many—if not most—of the characteristic features of a conventional recession were absent. Monetary restraint was enforcing a substantial reduction of activity in the housing sector, but the economic expansion still displayed considerable strength in many other sectors of the economy. Inflation still appeared to be the dominating economic problem by the close of the fiscal year.

Strong gains in employment continued during the fiscal year. Employment rose by 1.6 million persons. Slower real growth and effects stemming from the energy shortage did lead to some increase in unemployment. The total unemployment rate rose by about ½ percentage point and averaged 5¼ percent in the closing months of the fiscal year.

The slower rate of real growth in the economy during the fiscal year was associated with a decline in private sector productivity. To some considerable degree this was due to the sharp but temporary loss of output because of the oil embargo while employment was relatively well maintained. The net effect was about a 2-percent decline in private sector productivity. Compensation per man-hour rose about 8½ percent, resulting in a 10½-percent increase in labor costs per unit of output. During the second half of the fiscal year, labor costs per unit of output rose even more rapidly—at about a 13½-percent annual rate.

Despite the relatively large rise in employee compensation, real compensation per man-hour actually declined by about 2 percent because of the more rapid rise in prices. This posed a difficult situation in terms of inflation control since workers would undoubtedly make efforts to achieve an increase in real wages, while labor costs per unit of output were already rising at a very rapid pace. The appearance of these storm clouds in the wage-price area only increased the need to achieve an early reduction of what had become an intolerably rapid rate of inflation. While public attention naturally tended to center upon certain basic cost-of-living items, it was very disturbing that the wholesale price index of industrial commodities—where relative stability had long been regarded as an achievable objective by many economists—rose by 22 percent during the fiscal year.

Budget and Fiscal Developments

Fiscal policy moved into a moderately restraining position during the course of fiscal 1974. In the February budget, receipts were estimated at $270.0 billion and outlays at $274.7 for a deficit of $4.7 billion. On the full-employment basis, there was a projected surplus of $4 billion. The actual results for the year were receipts of $264.9 and outlays of $268.4 for a deficit of $3.5 billion. On the full-employment basis there was a surplus of roughly $10 billion.

In general, the shift toward fiscal restraint was welcome and beneficial in its effects. However, there was some question whether the surplus on the full-employment basis reflected a sufficient degree of fiscal restraint, given the strength of the inflation. The nominal surplus was only ½ percent of gross national product and was computed on the basis of the 4-percent unemployment rate which appeared increasingly difficult to reconcile with satisfactory price performance. At the same time, the acceleration of inflation was increasing tax receipts more rapidly than Government expenditures. For this reason, too, the full-employment budget gave an appearance of greater policy restraint than it was in fact providing.

In the special circumstances of a rapid rate of inflation and heavy pressure on financial markets, there was also the question whether the unified budget concept was sufficiently revealing as to the full impact of Federal fiscal and financial activities. For example, the unified budget deficit in fiscal 1974 was $3.5 billion and $4.1 billion in net funds were raised in the securities markets by the issuance of U.S. Government securities. In addition, however, federally sponsored agencies raised $18 billion in net funds to carry on a range of federally sponsored credit programs. U.S. Government and federally sponsored agency securities together accounted for more than 40 percent of total funds raised in the capital markets during fiscal 1974, and the proportion had been nearly 60 percent in fiscal 1973. It was becoming increasingly apparent that a broader view of fiscal and financial impact was necessary in order to fully appraise the growing Federal influence on the credit markets and the economy generally.

Domestic Finances

Credit markets remained under considerable pressure throughout the fiscal year. About $180 billion in total funds was raised, down only slightly from $195 billion in fiscal 1973. These large flows occurred during much of fiscal 1974 in an environment of rapidly rising interest rates. Short-term market rates eased somewhat in the early months of the fiscal year and by midyear there were numerous private forecasts of a declining rate pattern. Instead, interest rates moved higher across the board during the second half of the fiscal year.

By the close of the fiscal year, short-term market rates, such as commercial paper, the bank prime rate, and Federal funds were in the 11 to 13 percent range. These private rates were well above the 3-month Treasury bill which was below 8 percent at the time. This reflected some technical factors and a widespread investor demand for security and liquidity which made the Treasury bill a particularly desirable instrument. Long-term interest rates rose by smaller amounts but ended the fiscal year at or near record highs. New Aa corporate bonds were close to 10 percent, tax-free municipals around 6½ percent, and new home mortgages above 9 percent.

Domestic financial markets continued to function satisfactorily during the fiscal year despite the strains imposed by heavy credit demands and high interest rates. The equity and long-term debt markets were affected adversely by the continuation of high rates of inflation and real estate financing became increasingly difficult. However, no widespread financial failures occurred and the fairly unique difficulties encountered by the Franklin National Bank were prevented from spreading more broadly into the commercial banking system.

Marketable Treasury issues increased by $3.6 billion in fiscal 1974. Foreign investments in special nonmarketable issues declined by $3.4 billion. Savings bonds outstanding increased in the fiscal year by $2.5 billion.

All coupon-bearing Treasury securities were sold by auctions in 1974, with note offerings sold by the regular auction procedures employed for Treasury bills and the year's four offerings of long-term bonds using uniform-price auctions.

The cycle of 2-year note offerings, maturing at the end of calendar quarters, was reinstituted in fiscal 1974, and at year's end, only two maturities in the full cycle, March 31, and June 30, 1975, remained unfilled. In fiscal 1974, the Treasury also completed the cycle of 52-week bills begun the preceding year, offering the final July 30, 1974, bill in the cycle on October 9, 1973.

Also in the area of Federal finance, the Federal Financing Bank was created by the Federal Financing Bank Act of 1973 (Public Law 93–224, signed December 29, 1973). In addition to improving the coordination of Federal and federally assisted borrowings from the public with the overall economic and fiscal policies of the Government, the bank will also reduce the costs of Federal and federally assisted borrowings from the public and assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions.

The Federal Financing Bank is under the general supervision of the Secretary of the Treasury who is the Chairman of the Board of the bank, as provided in the act. On May 6, 1974, the President appointed the remaining members of the Board of Directors and the members of the Advisory Council. The Council was created to provide advice and assistance to the Board of Directors of the bank. The organization chart on page 449 specifies the members of the Board, the Advisory Council, and the officers of the bank. All positions are ex officio.

The Federal Financing Bank is authorized under the act to purchase and sell any obligation which is issued, sold, or guaranteed by a Federal agency. On May 24, 1974, the bank made a commitment with the Department of Health, Education, and Welfare to purchase from HEW up to $27.6 million of notes acquired by HEW public agencies under the medical facilities loan program (Hill-Burton). These notes carry maturities up to 25 years and were purchased by the bank at an interest rate of 8⅝ percent. The bank purchased a $100 million 91-day note from the Student Loan Marketing Association on June 4, 1974, at an interest rate of 8.975 percent. Both the "Sallie Mae" and Hill-Burton notes are guaranteed by the Department of Health, Education, and Welfare. Also during fiscal 1974, on June 27, 1974, the Federal Financing Bank bought $500 million of Postal Service 1-year obligations at an interest rate of 9.305 percent.

International Affairs

During the fiscal year ended June 30, 1974, the international economic and financial system was subjected to the most severe shocks and strains since the years immediately following World War II. Inflation reached unprecedented peacetime levels in many industrial countries, and balance of payments deficits on current account suddenly appeared at an annual rate of about $50 billion a year for the oil-importing countries taken together, as a result primarily of the quadrupled price of imported oil. Bad weather contributed to food shortages that intensified inflationary problems. At the same time, economic growth in the industrial nations slowed down generally in spite of the steeply rising inflation. Serious distress confronted a number of poorer developing countries forced to compete for higher priced oil and other necessary imports in world markets.

All these developments presented a major challenge to those responsible for economic and financial policies and relations, as well as to the business and banking communities. The need for effective and enlightened international cooperation was clearly underlined and intensified in the face of these shocks and strains.

Worldwide inflation.—By April 1974, year-to-year comparisons of consumer prices, in terms of annual rates of increase, had nearly doubled in the United States to 10 percent, had likewise doubled to 24 percent in Japan, and had reached 10 to 15 percent in most European industrial countries. Germany was an exception, holding its year-to-year comparison to 7 percent, and a few of the smaller European industrial countries had not crossed into double-digit inflationary territory by April 1974.

Consumer prices began to rise at an accelerating pace in seven major industrial countries [1] in the first half of 1973, rising from an increase of 4 percent in 1972 over 1971, to an annual rate of change of about 7 percent in January–June 1973, to about 10 percent in July–December 1973, and to about 15 percent in January–June 1974. At the same time, the growth of real gross national product in these seven countries slowed down markedly, from the cyclically high figure of 8 percent per annum in January–June 1973, to 3 percent in July–December 1973, and approached zero or a negative figure in January–June 1974. This coincidence of sharply rising prices with declining real growth has markedly intensified the difficulties in developing and applying effective anti-inflationary policies in the industrial countries.

Moreover, the rise in consumer prices was markedly slower than the very sharp upward trend in agricultural and other primary commodities, excluding oil, that enter into world trade. This suggests that the pressure on world supplies of these basic commodities was particularly intense. In calendar year 1973 dollar prices for 35 major commodities (excluding petroleum) tabulated by the International Bank were about 50 percent higher on average than in calendar year 1972, and continued to advance sharply in the first quarter of 1974. With such a wide divergence between the price movements of basic commodities and of consumer prices, the economic system was structurally distorted. Consumer prices were being pushed upward by the high cost of primary products. As the year 1974 progressed, slower rates of economic expansion in the United States, Japan, and Europe began to ease the pressure on supplies of primary commodities. Prices of some of these commodities began to turn downward in the second quarter of 1974, thus narrowing the spread between the price advances of basic goods and of final consumer goods. However, after the end of the fiscal year, severe drought in the United States gave a renewed upward thrust to prices of some basic foodstuffs.

By far the most severe rise in commodity prices during the year was the quadrupling of crude oil prices late in 1973, by a decision of the OPEC group of oil-exporting countries. This had the effect of abruptly

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[1] Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

improving the terms of trade of these countries vis-a-vis the rest of the world. It also brought sudden and massive changes in the structure of world payments, making the oil producers supercreditors vis-a-vis the rest of the world on an unprecedented scale, and forcing nearly all other countries into deficit in varying amounts in their current international accounts in terms of goods and services.

This large and perpendicular rise in oil costs placed an additional severe inflationary pressure on costs, and reduced consumers' real income all over the world. Reaction to the resulting reduction in living standards from the sharply higher costs of energy, as well as other primary goods, stimulated accelerated wage demands around the world, and this in turn contributed to rising prices of finished goods. In other words, the economic system tended to resist the distortion in the structure of relative prices and costs in favor of oil and primary goods, and this was one major source of heightened inflationary pressures in all the consuming countries.

These inflationary shocks attained a severity rarely, if ever, encountered in the industrial countries in peacetime in the past. The principal offsetting tendency has come from the slower pace of economic activity in industrial countries. Interest rates in monetary terms have risen in major countries along with prices, thus giving more protection against inflation to new savings. Calculated in terms of command over goods, interest rates are much lower or even negative in some cases. Investors in older fixed-interest securities and recipients of fixed incomes generally are suffering severely as the real value of their assets or incomes has declined sharply.

Higher monetary interest rates have contributed to slowing down some activity, particularly in housing construction, in a number of countries. At the same time the fiscal stimulus to major economies has been tapering off in some cases, as budgetary revenues have risen faster than expenditures. Moreover, the higher relative costs of energy and other basic goods means that consumers in importing countries now have less money to spend on other things.

The stresses to which the world economy has been subjected in the fiscal year have heightened the realization of common problems and called attention to the need for an internationally cooperative approach to the growing spectrum of threats to international progress.

Balance of payments changes.—Against this background of a new dimension of inflation, and of severe structural changes in relative prices, balance of payments positions on current account are in a state of flux. Nearly all oil-consuming countries have faced the prospect of substantial deficits in their trade and current accounts. Some estimates of the combined current account surpluses of oil-producing countries in calendar year 1974, at current prices for oil, have been put as high as $55–$65 billion, as against about $5 to $6 billion in 1973. In any case the change in world payments between fiscal 1973 and fiscal 1974 dwarfs by far past year-to-year shifts in current account positions, at least since the early postwar period. Along with others, the United States is experiencing a worsening in its trade and current account position, though its agricultural export potential has provided some offsetting support.

In varying degrees, the oil-producing countries are expected to acquire far more receipts than they can spend on imported goods and services. Thus a very large share of their receipts must be reinvested outside their own territories. To the extent that these reinvested receipts are either held directly in, or recycled through private or official relending into the various oil-importing countries from which they originated, they need not put pressure on gross reserves or on exchange rates.

The most serious difficulties confront poorer developing countries, whose access to private sources of international finance may be limited. They are dependent on special concessional financing, and this requires the cooperation of stronger countries. Such assistance from the new surplus countries—the oil producers—has been initiated, but the terms have not been sufficiently concessional in some cases and such assistance has not yet been made available to many poor countries.

Exchange rates and reserve changes.—Despite the stresses and strains of rapidly changing payments positions, the exchange markets showed themselves resilient under the system of widespread managed floating rates that prevailed during the past year. There were swings during the year, but when individual exchange rate changes vis-a-vis the dollar are weighted to reflect the relative value of U.S. trade with major individual trading partners that are members of the Organization for Economic Cooperation and Development (OECD), the dollar appreciated by about 3 percent during the fiscal year. Moreover, during the year the maximum movement on this weighted average basis was little more than 5 percent on each side of the middle rate for the year. Fluctuations in the dollar rates for some individual currencies were wider, with some currencies such as the German deutsche mark and the Canadian dollar appreciating during the year, while the French franc, Italian lira, and Japanese yen declined moderately in terms of the dollar. As compared with May 29, 1970, the trade-weighted exchange rate for the dollar had depreciated 16.5 percent, as of June 30, 1974, in terms of the currencies of other OECD countries as a group, and was down on the average about 10 percent when measured against the currencies of all of our trading partners taken together.

Under the system of managed floating, not all changes in the private demand for and supply of currencies exerted their influence on exchange rates. Some gains and losses of reserves took place. After the sharp increase in oil prices, Italy, the United Kingdom, and France borrowed heavily in the Eurocurrency market and substantial amounts of additional reserves became available for supporting their currencies in this way. Nevertheless, there was some leveling off in the upward trend of global reserves. In terms of special drawing rights (SDR's), global reserves (excluding Communist countries) were estimated by the IMF at about SDR 165 billions (nearly $200 billion) at the end of June 1974, up about 9 percent from a year earlier. This compares with an increase of about 12 percent in the fiscal year 1972–73. The reported reserves of 10 major oil-producing countries rose by nearly $17 billion, while the reserves of the rest of the world remained at about the level of the previous year. However, the industrial countries as a group saw a decline of $4.5 billion in their aggregate published reserves.

Money markets and international investment.—In money and capital markets, interest rates at both short and long term rose, though by varying amounts, in most industrial countries. However, during the first half of the fiscal year, rates of interest in many countries did not equal or exceed the annual percentage rise in the cost of living, so that in terms of real purchasing power, the creditor was often losing rather than gaining. Towards the end of the fiscal year interest rates in major countries appeared to have become more closely bunched at higher levels, though hovering not far above or below the corresponding rates of rise in consumer prices.

The trend toward a closer integration of capital markets in industrial countries, and the concomitant drawing together of interest rates, was given added impetus through the phasing out and final removal of the U.S. program of restraints on capital outflow. On November 27, 1973, and again on December 26, 1973, the Commerce Department relaxed the foreign direct investment regulations, and at the end of December the Department of the Treasury and the Federal Reserve Board liberalized the interest equalization tax and the voluntary foreign credit restraint guidelines. Later, on January 29, 1974, these three programs were effectively terminated, except for certain remaining statistical reporting requirements. The legal authority for the Interest Equalization Act, initiated in 1963, expired on June 30, 1974.

These actions by the United States and the easing of inward or outward capital controls in Germany and some other countries have facilitated the international movement of funds in response to rates of return on capital. At the same time, the more frequent and wider movements of exchange rates under the managed floating rate system now prevailing help to dampen large movements of funds into and out of official reserves in response to differing degrees of credit restraint and differing payments developments among industrial countries.

The United States is continuing to participate actively in studies of international investment and multinational corporations being conducted by the OECD. Those studies have focused on three main aspects: (1) National treatment for foreign investors, (2) government policies regarding incentives and disincentives, and (3) issues pertaining to multinational corporations.

Legislation is pending in the Congress that would authorize the Treasury and Commerce Departments to conduct studies of foreign direct and portfolio investment in the United States. In this connection, Treasury and Commerce are planning benchmark surveys to improve the statistical data. Treasury will conduct the survey on portfolio investment in the United States, which was last surveyed partially in 1949, updating the basic census of 1941.

International monetary reform.—During the year a Committee of 20 Governors, representing at the political level the 20 constituencies into which the 126 members of the International Monetary Fund were divided, actively pursued this subject. The group met both at the Ministerial level and, more frequently, at the Deputies level. During the first half of the fiscal year, the group concentrated on an Outline of a long-range monetary system based on stable but adjustable par values, with floating exchange rates in particular situations.

This draft Outline, published first on the responsibility of the Chairman of the Committee in September 1973, among other ideas, dealt with proposals made by the U.S. representatives designed to strengthen the responsibility for surplus as well as deficit countries to correct excessive payments imbalances. To this end the United States had proposed that the International Monetary Fund develop a system of reserve indicators, under which disproportionately large gains or losses of reserves would activate international incentives and pressures to reduce surpluses or deficits, unless the Fund found overriding reasons not to apply such pressures. The Outline also supported the view that the SDR's in the Fund should have a larger role in world reserves in the future, while less reliance should be placed upon gold and foreign currency reserves, and it discussed various other aspects of a proposed system, but without formally committing the members of the Committee to its proposals.

Following the quadrupling in the price of oil in the latter part of the calendar year, it became increasingly doubtful that countries were prepared to undertake formal commitment to the responsibilities and obligations of a detailed monetary system in view of the uncertain and severe payments positions that faced most oil-consuming countries. The Committee, during January–June 1974, therefore added to its Outline of a future system certain proposals for improved international cooperation in operating an interim monetary system characterized by managed floating rates in major countries. The revised Outline, published after the final meeting of the Committee in June 1974, accordingly included a set of rules governing the management of floating currencies, and revised the method of valuing SDR's, to establish a daily value fixed by the exchange rates for a given "basket," or collection, of 16 leading currencies. Also the Committee made provision for an Interim Committee of 20 Governors and Ministers to succeed itself, with a broad responsibility to oversee the international monetary system as it evolves.

World trade and trade negotiations.—In dollar terms, the value of world imports (c.i.f.) reached an estimated level of about $600 billion in the final quarter of the calendar year 1973, a rise of about 40 percent over the level of the fourth quarter of 1972. While the worldwide inflation of prices was largely responsible for such an unprecedented rate of growth in values, the physical volume of transactions is also estimated to have advanced at a higher rate than the average annual rise of about 9 percent in the decade of the sixties. While global data for the first half of 1974 were not available at the time of writing, the upward trend in the dollar value of imports became slightly less steep for the industrial countries in the first quarter of 1974. This was especially noticeable in Germany, Canada, and Scandinavia. The composition of trade also began to change, as the cost of petroleum rose much more sharply than that of other traded goods.

In the sphere of trade negotiations, governments continued to make preparations for the multilateral trade negotiations expected to begin under GATT auspices in the fiscal year 1974–75. Following an intergovernmental Ministerial meeting in Tokyo in September 1973, a Trade Negotiations Committee of 102 countries met and agreed on a work program to prepare for the negotiations. One important prerequisite to progress in these negotiations was the conclusion in May of an agreement with the European Community providing compensation to the United States for trade concessions impaired when the Community was enlarged from six to nine members in January 1973. This agreement is expected to become formally effective in 1975.

Another prerequisite for moving the multilateral trade negotiations into serious bargaining is passage of the necessary legislative authority by Congress. The Trade Reform Act of 1973 was approved by the House of Representatives, authorizing the President to negotiate multilaterally on tariff reduction and nontariff barriers, and also providing authority to make adjustments in U.S. import restrictions when needed to correct our payments position, and to defend our exports against foreign restrictions. This legislation was being considered in the Senate Finance Committee at the end of June.

As one important example of international cooperation, the members of the OECD pledged themselves for 1 year not to resort to unilateral trade measures designed to offset the immediate impact of the higher costs of petroleum imports. This pledge was taken in recognition of the fact that the OECD countries as a group would not be able to avoid a large trade deficit with the oil-exporting countries and unilateral restrictive trade measures would not only aggravate the problems of other countries but, if restrictive action became widespread, it would have a depressing effect on the world economy. To further strengthen and prolong international cooperation in this respect, the United States proposed amendments to the Articles of Agreement of the IMF that would make subject to prior approval by the IMF any future governmental actions taken to strengthen an individual country's current account position for balance of payments purposes.

International development lending institutions.—Worldwide inflation and rising costs of basic materials and fuel have fallen with special severity on many developing countries. This has underlined the need for international cooperation in development finance, as in other fields.

The Department of the Treasury has the responsibility for requesting authorizations and appropriations by the Congress for the funds provided by the United States to the international and regional development lending institutions. These funds are made available in two forms. Capital subscriptions provide funds that are lent to borrowing countries on conventional terms, while contributions to special funds are lent on concessional terms.

During fiscal 1974, the Congress approved appropriations under previous congressional authorizations amounting to $788 million, as against requests totaling $1,113 million made by the Treasury, as follows:

($ million)

	Requested	Appropriated	Difference
Capital subscription:			
Inter-American Development Bank	193	193	
For concessional lending:			
International Development Association	320	320	
Asian Development Fund	100	50	50
Fund for Special Operations of Inter-American Development Bank	500	225	275
Total	1, 113	788	325

Looking to the future, the Treasury requested authorizations for fiscal 1975 and subsequent years totaling $1,927 million from the Congress, as follows:

	($ million)
Capital subscription:	
Asian Development Bank (in three annual installments)	362
Concessional lending:	
International Development Association (in four annual installments fiscal 1976–79)	1,500
Asian Development Fund	50
African Development Fund	15
Total	1,927

In July 1974, the Congress completed authorizing legislation covering the $1,500 million for the International Development Association, reversing a rejection of the request by the House of Representatives early in the calendar year.

The level of lending activity in terms of current dollars increased in all the institutions except the International Development Association, which was down about $250 million, or 20 percent. The World Bank increased its lending by more than a billion dollars, to $3,218 million, up 57 percent from the previous year. Commitments of the Inter-American Development Bank rose 46 percent to more than $1 billion, and the more recently formed Asian Development Bank increased lending by 25 percent.

As their operations have grown, each of the institutions has established, or is considering establishment of, an independent unit responsible for the audit and evaluation of that institution's projects, procedures, policies, and performance. The United States has strongly supported such review procedures.

Conclusion

Domestically, inflation was the dominant economic problem during the fiscal year. By the close of the fiscal year, the economy had slowed down but retained considerable forward momentum. A period of adjustment was clearly in prospect but one which might not conform in all respects to the traditional economic recessions of the past.

In the international economy, the immediate outlook for the industrial nations seemed to be the continuation of high rates of inflation and sluggish economic performance. The longer term economic outlook internationally was rendered somewhat uncertain by the scale of the increase in international oil prices and the balance of payments and other adjustments that would seemingly be required. However, private markets functioned relatively smoothly during the year and cooperative efforts were proceeding to deal with the new problems that had emerged.

REVIEW OF TREASURY OPERATIONS

FINANCIAL OPERATIONS

Summary

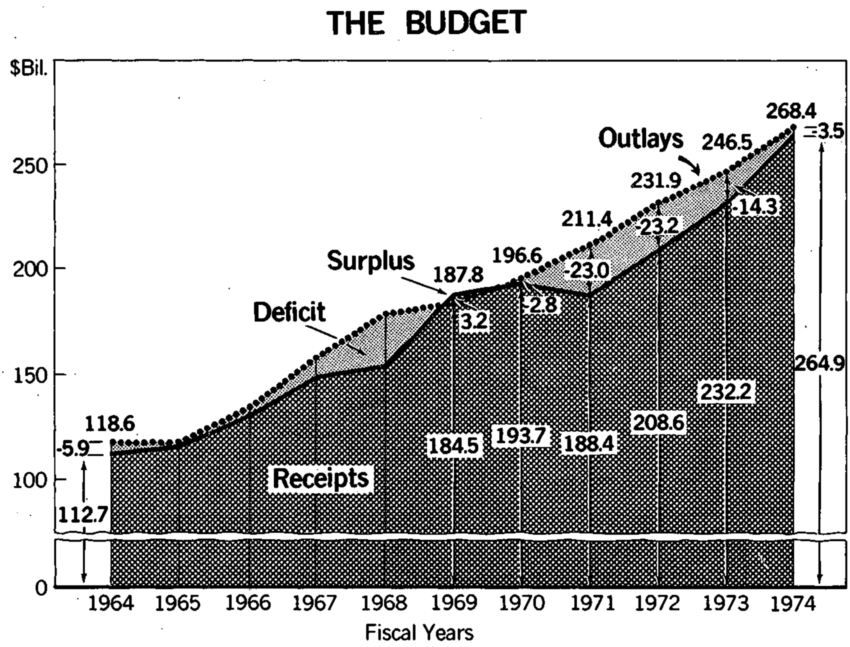
On the unified budget basis the deficit for fiscal 1974 was $3.5 billion. Net receipts for fiscal 1974 amounted to $264.9 billion ($32.7 billion over 1973) and outlays totaled $268.4 billion ($21.9 billion over 1973).

Borrowing from the public amounted to $3.0 billion as a result of (1) the $3.5 billion deficit, (2) a $2.5 billion decrease in cash and monetary assets, and (3) a $2.1 billion decrease in other means of financing.

As of June 30, 1974, Federal securities outstanding totaled $487 billion, comprised of $475 billion in public debt securities and $12 billion in agency securities. Of the $487 billion, $346 billion represented borrowing from the public. The Government's fiscal operations in fiscal years 1973–74 are summarized as follows:

[In billions of dollars]

	1973	1974
Budget receipts and outlays:		
Receipts	232. 2	264. 9
Outlays	246. 5	268. 4
Budget deficit (−)	−14. 3	−3. 5
Means of financing:		
Borrowing from the public	19. 3	3. 0
Decrease or increase (−) in cash and other monetary assets	−. 8	2. 5
Other means:		
Increment on gold and seigniorage	. 4	1. 5
Outlays of off-budget Federal agencies	−. 6	−2. 7
Other	−4. 1	−. 9
Total budget financing	14. 3	3. 5



Receipts

Total budget receipts amounted to $264.9 billion in fiscal 1974—$32.7 billion, or approximately 14 percent, above the fiscal 1973 figure of $232.2 billion. Revenue from all categories of receipts increased, primarily reflecting expanding incomes and profits.

A comparison of net budget receipts by major source for fiscal years 1973 and 1974 is shown in the table below.

[In millions of dollars]

	1973	1974	Increase
Individual income taxes	103, 246	118, 952	15, 706
Corporation income taxes	36, 153	38, 620	2, 467
Employment taxes and contributions	54, 876	65, 892	11, 016
Unemployment insurance	6, 051	6, 837	785
Contributions for other insurance and retirement	3, 614	4, 051	437
Excise taxes	16, 260	16, 844	584
Estate and gift taxes	4, 917	5, 035	118
Customs duties	3, 188	3, 334	146
Miscellaneous receipts	3, 921	5, 369	1, 448
Total budget receipts	232, 225	264, 932	32, 707

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 $119.0 billion in fiscal 1974, $15.7 billion more than in fiscal 1973 reflecting a sharp rise in incomes.

Corporation income taxes.—Fiscal 1974 corporation income tax receipts rose to $38.6 billion—$2.5 billion, or about 7 percent, above the corresponding fiscal 1973 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 $65.9 billion in fiscal 1974, $11.0 billion above such receipts in fiscal 1973. The 20-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 effect of the January 1, 1974, base increase was partly realized in fiscal 1974.

Unemployment insurance.—These receipts totaled $6.8 billion in fiscal 1974—$0.8 billion, or 13 percent, above the 1973 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 fiscal 1974 contributions amounted to $4.1 billion, $0.4 billion more than in 1973. Increases in both medical insurance premiums for the aged, and Federal employees retirement deductions accounted for the rise.

Excise taxes.—Excise taxes increased from $16.3 billion in fiscal 1973 to $16.8 billion in fiscal 1974. 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 totaled $5.0 billion, $0.1 billion more than in fiscal 1973.

Customs duties.—Customs duties increased by $0.1 billion in fiscal 1974 to $3.3 billion.

Miscellaneous receipts.—Miscellaneous receipts grew to $5.4 billion in fiscal 1974, rising from $3.9 billion in 1973. The increase was primarily due to larger deposits of earnings by the Federal Reserve System.

Outlays

Total outlays in fiscal 1974 were $268.4 billion (compared with $246.5 billion for 1973). Outlays for fiscal 1974, by major agency, are compared to those of 1973 in the following table. For details see the Statistical Appendix.

[In millions of dollars]

	1973	1974	Increase, or decrease (−)
Funds appropriated to the President	3,733	4,015	282
Agriculture Department	10,028	9,767	−262
Defense Department	75,000	79,307	4,307
Health, Education, and Welfare Department	82,042	93,735	11,692
Housing and Urban Development Department	3,592	4,786	1,194
Labor Department	8,639	8,966	328
Transportation Department	8,183	8,112	−71
Treasury Department	30,983	35,993	5,010
Atomic Energy Commission	2,393	2,307	−86
National Aeronautics and Space Administration	3,311	3,252	−59
Veterans Administration	11,968	13,337	1,369
Other	15,031	14,708	−323
Undistributed intrabudgetary transactions	−8,378	−9,893	−1,515
Total outlays	246,526	268,392	21,866

Cash and monetary assets

On June 30, 1974, cash and monetary assets amounted to $15.9 billion, a decrease of $2.5 billion compared with fiscal 1973. The balance consisted of $10.5 billion in the general account of the U.S. Treasury (this balance was $3.4 billion less than June 30, 1973, and included $0.1 billion net transactions in transit as of June 30); $4.3 billion with other Government officers ($0.3 billion more than 1973); and $1.1 billion with the International Monetary Fund ($0.6 billion more than 1973). For a discussion of the assets and liabilities of the Treasury's account see page 121. The transactions affecting the account in fiscal 1974 follow:

Transactions affecting the account of the U.S. Treasury, fiscal 1974

[In millions of dollars]

Balance June 30, 1973			13,854
Less: In transit at June 30, 1973			112
Excess of deposits, or withdrawals (−), budget, trust, and other accounts:			
Deposits		290,625	
Withdrawals (−)		301,748	
			−11,123
Excess of deposits, or withdrawals (−), public debt accounts:			
Increase in gross public debt		16,918	
Deduct:			
Excess of Government agencies' investments in public debt issues	16,267		
Accruals on savings and retirement plan securities and Treasury bills (included in increase in gross public debt above)	11,375		
Certain public debt redemptions (included above in withdrawals, budget, trust, and other accounts)	−8,921		
Net deductions		18,721	
			−1,803
Excess of sales of Government agencies' securities in the market			13,262
Net transactions in clearing accounts (documents not received or classified by the U.S. Treasury)			−3,725
Net transactions in transit			121
Balance June 30, 1974			10,473

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 and outstanding are reported as liabilities in the periodic financial statements of the Government corporations and agencies. In fiscal 1974, borrowings from the Treasury, exclusive of refinancing transactions, totaled $10.7 billion, repayments were $10.4 billion, and outstanding loans on June 30, 1974, totaled $35.4 billion.

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 1974, Congress granted $4.3 billion in new authority to borrow from the Treasury and slightly reduced existing authority which resulted in a net increase of $4.2 billion. The status of borrowing authority and the amount of corporation and agency securities outstanding as of June 30, 1974, 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, 1974, is shown in the Statistical Appendix.

During fiscal 1974, the Treasury received from agencies a total of $1.4 billion in interest, dividends, and similar payments. (See the Statistical Appendix.)

As required by Department Circular No. 966, Revised, 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). Quarterly statements showing direct and guaranteed loans, and 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 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, 1974, are shown in the Statistical Appendix.

Government-wide financial management

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 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 third annual progress report was submitted to the Congress on August 31, 1973. In recognition of the more extensive effort contemplated by the Congress than initially perceived by OMB and Treasury, a Legislative Reorganization Act implementation planning task team was established on June 1, 1973.

This team, operating on a full-time basis, and chaired by a representative from OMB, included two senior professionals from Treasury, one from the Department of Defense, and three from OMB. The team had five major objectives which were: (1) To achieve a fuller understanding of the information needs of the Congress identified by GAO; (2) to determine the adequacy or deficiency of existing systems and reporting procedures to meet congressional needs; (3) to seek resolution of any issues, questions, or problems which may impede an orderly implementation of sections 201–203 of the act; (4) to develop and evaluate alternative approaches to meet defined congressional needs; and (5) to develop short- and long-range plans for proceeding with LRA system activities.

During the year the implementation planning task team identified and described 60 discrete congressional needs. Some of the needs have been met, while others have not been fully defined. Both short- and long-range plans for meeting the full spectrum of all needs were included in the report "Plan for Addressing Congressional Information Needs," which was released on March 7, 1974. The near-term information improvements would impact more heavily on central OMB and Treasury systems than on agency systems. The longer range reforms suggested could have a very significant impact on the agencies as well as the central OMB and Treasury systems. Efforts of OMB and Treasury, in cooperation with GAO, continue in line with implementing the plans as developed by the team.

Joint Financial Management Improvement Program.—On June 27, 1974, the Secretary met with the other principals of the Joint Financial Management Improvement Program to review progress under the program and to sign revised Terms of Reference. The new Terms of Reference establish an Executive Council with a member appointed by each principal to represent him in dealing with policy matters. They also provide for an administrative staff consisting of an executive director, executive secretary, and two clerical support positions. In addition, each sponsoring agency during the 2-year period that it has the chairmanship will assign to JFMIP at least one full-time professional.

At this meeting of the principals, Comptroller General Staats presented to the Secretary a letter approving the design of the revenue accounting system for the Internal Revenue Service. Mr. Staats' letter also noted that with this approval the Department of the Treasury now has all of its accounting systems approved.

Early in the year the President issued an Executive order reassigning certain financial management responsibilities from OMB to GSA. Following this change, Mr. Arthur Sampson, Administrator of General Services, accepted an invitation to become a principal in the Joint Program. GSA has been actively involved in the program during the last year and Mr. Sampson will serve as the JFMIP chairman for a 2-year period, beginning July 1, 1974.

The third annual Financial Management Conference was held on January 28, 1974, in Washington, D.C., with Mr. Sampson as the keynote speaker. The Financial Management Achievement Awards for 1974 were presented to Edward W. Stepnick, Director, HEW Audit Agency, and Robert Ringwood, State Auditor of Wisconsin. The purpose of the awards is to give public recognition to Government employees who have achieved significant economies, efficiencies, and improvements.

Four seminars were held. The first dealt with establishing a closer relationship between program managers and financial managers; the second concentrated on special problems of financial management. A third seminar, related to the productivity program, dealt with quality measurement techniques, whereas the fourth seminar concentrated on problems involved in operating and administering reimbursable activities.

Emergency Loan Guarantee Board

The Secretary of the Treasury is Chairman of the Emergency Loan Guarantee Board, a three-man board consisting also of the Chairman of the Board of Governors of the Federal Reserve System and the Chairman of the Securities and Exchange Commission. The Board, established by law in August 1971 (15 U.S.C. 1841–1852), was authorized, upon making certain specified findings, to guarantee private bank credit to major business enterprises in an aggregate amount of up to $250 million. The Board's authority to enter any new guarantee agreements terminated in December 1973.

The Board submitted a special report to Congress on June 28, 1973, which contained a description of the Board's operations together with a recommendation that the guarantee program not be continued beyond its termination date. Termination of the guaranteed loan program does not affect the Board's ability to carry out its obligation to Lockheed Aircraft Corp., the only borrower.

On September 24, 1973, the Board submitted its second annual report to Congress for the year ended July 31, 1973. In accordance with the requirements of the Emergency Loan Guarantee Act, the report fully describes the Board's operations during the year with focus on Lockheed Aircraft Corp. A third annual report is forthcoming for the year ended July 31, 1974.

Treasury Department Committee on the Right of Privacy

In his state of the Union address to the Congress on January 30, 1974, the President ordered an "extensive Cabinet-level review" to determine what measures can be taken to assure personal privacy while meeting legitimate needs for information. In response, on February 23, 1974, Vice President Gerald Ford formed the Cabinet-level Domestic Council Committee on the Right of Privacy. This action called for complete cooperation of all agencies in a concerted effort to analyze and improve procedures relating to the privacy of individuals. The Vice President requested support from the Secretary of the Treasury in this effort and appointed him as a member of the Domestic Council Committee. Other agencies represented were the Department of Defense, the Department of Justice, the Department of Commerce, the Department of Labor, the Department of Health, Education, and Welfare, the Civil Service Commission, the Office of Management and Budget, the Office of Telecommunications Policy, and the Office of Consumer Affairs.

The Secretary appointed an assistant and a liaison representative to represent him on the Vice President's Committee. In addition, he created a Treasury Department Right of Privacy Committee on March 29, 1974, with representatives from every Treasury unit having special responsibilities in this field. The Treasury Committee met often and cooperated fully with the Domestic Council Committee by assisting in its quest for information relating to Treasury procedures concerning the privacy of information about individuals, by considering quickly and thoroughly the many proposals put forth, by participating or handling Domestic Council projects, and by offering proposals on behalf of Treasury.

Treasury was the lead agency, responsible for coordination of project 6 of the Domestic Council Committee, which studied and made recommendations concerning access to taxpayer data. In addition, the Treasury was represented on seven other projects of the Domestic Council Committee, with Treasury officials participating in studies and the compilation of reports on topics ranging from the distribution of mailing lists by Government agencies to the safeguards necessary in creating an electronic funds transfer system to be used for social security and supplemental security income payments by the Federal Government.

One of the major concerns of the Domestic Council Committee on the Right of Privacy was the formulation of draft alternative language to H.R. 12206, "a bill to amend title 5, United States Code, to provide that persons be apprised of records concerning them which are maintained by Government agencies," and other similar bills. The draft was coordinated by OMB. The Treasury Committee played a leading role in formulating the Department's position on the alternative draft.

The work of the Treasury Committee culminated in a review of the reports of all eight projects, and of the privacy initiatives 1–14, which represented proposed decisions on a program for action throughout the Federal Government to implement the proposals and reports of the Domestic Council Committee. [On July 10, 1974, at a meeting of the principal representatives of the Domestic Council Committee on the Right of Privacy, chaired by Vice President Ford, all initiatives were approved, with some modifications. All of the initiatives were supported in principle by the Secretary of the Treasury's representative and all of Treasury's proposed amendments were adopted.]

FEDERAL DEBT MANAGEMENT

Federal debt management in fiscal 1974 was conducted in an extremely difficult economic atmosphere. Inflation continued to plague the economy and intensified in the latter part of the year as the effects of the oil embargo and other material shortages spread through the economy. At the same time the pace of economic activity faltered, and in the late fall unemployment rose from about 4.6 percent to a rate of 5.3 percent where it generally held for the remainder of the fiscal year. Thus, the Government was confronted with the delicate task of countering both the recessionary tendencies in the economy and the worsening inflationary situation.

The original 1974 budget had estimated the deficit for the fiscal year at $12.7 billion. By June 1973, however, expectations of rising revenues and the administration's desire to hold down expenditures led to a reduction in the estimate to $2.7 billion. While actual receipts and outlays totals were both lower than the June estimates, the actual deficit for the year was only $3.5 billion. Thus, even with a slowdown in economic activity, the deficit and the Treasury's net financing requirements remained markedly below the $14.3 billion needs of fiscal 1973.

In contrast to fiscal 1973, when net foreign central bank purchases of special nonmarketable Treasury issues totaling $9.5 billion had reduced the Treasury's market demands, net redemptions of foreign-held issues in fiscal 1974, totaling $3.4 billion, increased the Government's need for market financing.

All coupon-bearing Treasury securities were sold by auction in 1974. Note offerings were sold by the regular auction procedures employed for Treasury bills. The year's four offerings of long-term bonds used the uniform-price auction, in which all awards are made at the lowest accepted price.

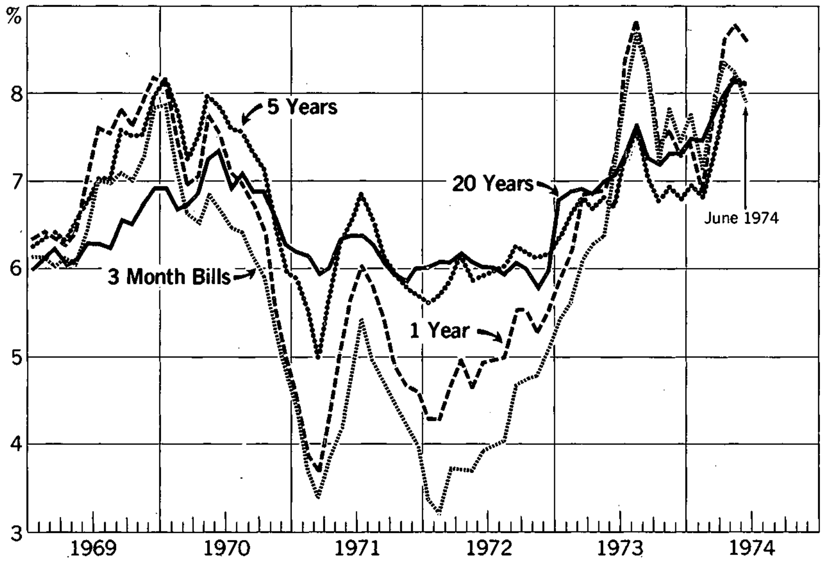
The cycle of 2-year note offerings, maturing at the ends of calendar quarters, was partially reinstituted in fiscal 1974. In early September, an 8⅜ percent September 1975 note was sold; in November and March, respectively, 7 percent December 1975 and 8 percent March 1976 notes were auctioned; and an 8¾ percent June 1976 note was auctioned as part of the May refunding. At year's end, only two maturities in the full cycle remained unfilled: March 31, and June 30, 1975. In fiscal 1974, the Treasury also completed the cycle of 52-week bills begun the preceding year, offering the final July 30, 1974, bill in the cycle on October 9, 1973.

In total, all marketable Treasury issues increased by $3.6 billion in fiscal 1974. However, there was a net decline of $1.4 billion in outstanding marketable Treasury notes and bonds despite gross offerings of coupon-bearing issues amounting to $23.3 billion of which $2.5 billion were long-term bonds. Bill financing, on the other hand, provided $5.0 billion of new money in fiscal 1974, only slightly less than the $5.4 billion of new cash raised in bills in the preceding year. As noted, foreign investment in special nonmarketable issues declined by $3.4 billion. Finally, U.S. savings bonds continued to be an important source of funds with a net increase in outstanding amounting to $2.5 billion.

Changes in Federal securities

Federal securities include the marketable and nonmarketable debt issues of the Department of the Treasury as well as those obligations

MARKET YIELDS AT CONSTANT MATURITIES 1969-1974



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

issued by Federal agencies which are part of the unified budget totals and in which there is an element of Federal ownership. The Federal agency securities included are the participation certificates of the Government National Mortgage Association, the debt issues of the Export-Import Bank of the United States 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 1974, Federal securities outstanding totaled \$487.1 billion—\$17.8 billion, or 4 percent, more than the \$469.3 billion level at the end of fiscal 1973. Total Treasury public debt securities outstanding reached \$475.1 billion and accounted for \$16.9 billion of the fiscal 1974 increase in Federal securities, while Federal agency securities rose \$0.9 billion to a level of \$12.0 billion. Treasury marketable securities outstanding on June 30, 1974, amounted to \$266.6 billion. This was an increase of \$3.6 billion in fiscal 1974 compared with \$5.8 billion in fiscal 1973. The fiscal 1974 increase in marketable debt was the result of a \$5.0 billion increase in Treasury bills which was partly offset by a net decline of \$1.4 billion in Treasury notes and bonds. Despite the Treasury's issuance of \$2.5 billion of long bonds and \$4.1 billion of securities in the 5- to 10-year maturity area, the

Federal debt and Government-sponsored agency debt

[In billions of dollars]

Class of debt	June 30, 1972	June 30, 1973	June 30, 1974	Increase, or decrease (−)
Public debt securities:				
Marketable public issues by maturity class:				
Within 1 year	121.9	122.8	139.9	17.1
1 to 5 years	89.0	88.2	77.2	−11.0
5 to 20 years	36.2	45.6	44.4	−1.2
Over 20 years	10.1	6.4	5.1	−1.3
Total marketable issues	257.2	263.0	266.6	3.6
Nonmarketable public issues:				
Series E and H savings bonds	55.9	59.4	61.9	2.5
U.S. savings notes [1]	.6	.5	.5	(*)
Investment series bonds	2.3	2.3	2.3	(*)
Foreign series securities	16.9	26.8	23.4	−3.4
Foreign currency securities	2.1	1.7	1.6	−.1
Other nonmarketable debt	.8	.9	1.5	.6
Total nonmarketable public issues	78.6	91.6	91.3	−.3
Special issues to Government accounts (nonmarketable)	89.6	101.7	115.4	13.7
Non-interest-bearing debt	1.9	1.8	1.8	(*)
Total gross public debt	427.3	458.1	475.1	17.0
Federal agency securities:				
Government National Mortgage Association	4.9	4.5	4.4	−.1
Export-Import Bank of the United States	1.8	2.2	2.9	.7
Tennessee Valley Authority	1.9	2.3	2.7	.4
Defense family housing	1.5	1.5	1.4	−.1
Other	.8	.7	.6	(*)
Total Federal agency debt	10.9	11.1	12.0	.9
Total Federal debt	438.2	469.3	487.1	17.8
Government-sponsored agency securities:				
Federal home loan banks	7.8	12.1	18.6	6.5
Federal National Mortgage Association	18.6	20.4	25.2	4.8
Federal land banks	7.5	9.1	11.1	2.0
Federal intermediate credit banks	6.1	6.7	8.0	1.3
Banks for cooperatives	1.8	2.3	2.5	.2
Government-sponsored agency debt	41.9	50.6	65.3	14.7

* Less than $50 million.

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

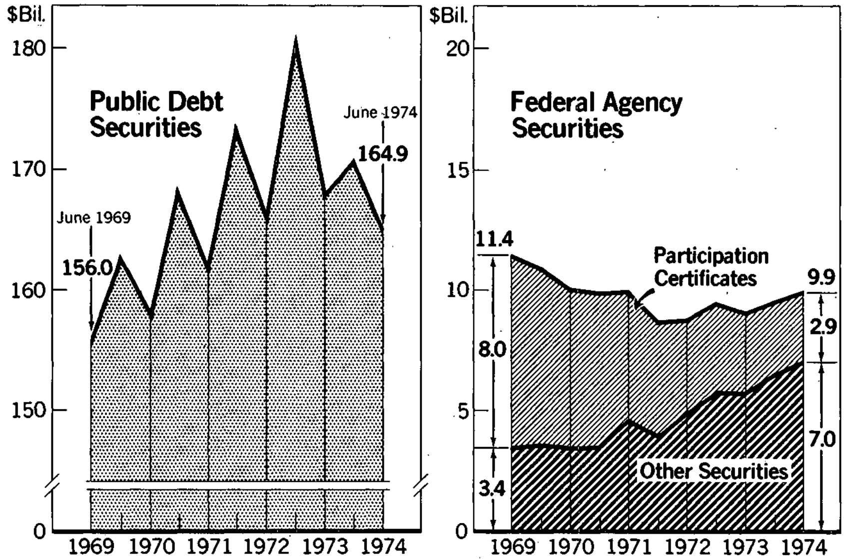
average maturity of the interest-bearing marketable debt declined by 2 months over the fiscal year and on June 30, 1974, was at 3 years.

Ownership

Of the total Federal debt issues outstanding at the close of fiscal 1974, $266.2 billion, or 57.3 percent, was held by private investors. The Federal Reserve System and Government accounts held the remainder, $220.8 billion. Private investors also held $62.7 billion of federally sponsored agency issues, which amounted to an increase of $13.4 billion in fiscal 1974. The Federal Reserve System and Government accounts holdings of federally sponsored agency issues increased by $1.4 billion to a level of $2.7 billion.

Borrowing from the public which includes the Federal Reserve System and foreign investors totaled $3.0 billion in fiscal 1974. This was

PRIVATE HOLDINGS OF MARKETABLE FEDERAL SECURITIES



considerably less than the more than $19.0 billion in each of the past 3 fiscal years. The Federal Reserve System acquired $5.5 billion of these securities while private investors showed a net decline of $2.5 billion, practically all of which was the decline in foreign holdings of Federal securities.

Unlike in fiscal 1973 when nonmarketable public debt increased by $13.1 billion, these securities declined $0.4 billion in fiscal 1974. Investment in special nonmarketable securities by foreign investors was down $3.4 billion while other nonmarketable issues, mainly savings bonds, rose by $3.0 billion over the fiscal year. Special nonmarketable securities issued only to Government accounts and trust funds such as the Federal old-age and survivors insurance trust fund accounted for the major portion of the increase in public debt securities. These nonmarketable issues increased by $13.7 billion in fiscal 1974.

Since Government-sponsored agencies are not included in the Federal budget totals, their obligations are not part of the Federal debt. However, these privately owned and managed agencies are subject to some degree of Federal supervision. In fiscal 1974 Government-sponsored agency debt increased by $14.8 billion to $65.4 billion.

Individuals.—In fiscal 1974 individuals increased their holdings of public debt securities by $4.8 billion to a level of $80.7 billion. More than half of the increase, $2.5 billion, was in holdings of E and H savings bonds. Attracted to the higher yields on Treasury marketable securities, individuals increased their holdings by nearly $2.4 billion,

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Estimated ownership of public debt securities on selected dates 1964–74

[Dollar amounts in billions]

	June 30, 1964	June 30, 1972	June 30, 1973	June 30, 1974	Change during fiscal 1974
Estimated ownership by:					
Private nonbank investors:					
Individuals: [1]					
Series E and H savings bonds	$47.3	$55.4	$58.9	$61.4	$2.5
U.S. savings notes [2]		.6	.5	.5	(*)
Other securities	21.2	r 17.2	16.4	18.8	2.4
Total individuals	68.5	73.2	75.9	80.7	4.8
Insurance companies	11.0	r 6.7	r 6.3	5.9	−.4
Mutual savings banks	5.8	r 3.5	r 3.2	2.6	−.6
Savings and loan associations	6.5	5.7	5.7	4.6	−1.1
State and local governments	22.5	r 26.9	r 28.8	28.3	−.5
Foreign and international	15.6	50.0	60.2	57.7	−2.6
Corporations	18.9	r 9.3	r 9.8	10.8	1.0
Miscellaneous investors [3]	9.3	r 8.3	r 10.9	12.7	1.7
Total private nonbank investors	158.2	183.6	200.9	203.2	2.3
Commercial banks	60.2	r 60.9	r 58.8	53.2	−5.6
Federal Reserve banks	34.8	71.4	75.0	80.5	5.5
Government accounts	58.6	111.5	123.4	138.2	14.8
Total gross debt outstanding	311.7	427.3	458.1	475.1	16.9
			Percent		
Percent owned by:					
Individuals	22	17	17	17	
Other private nonbank investors	29	26	27	26	
Commercial banks	19	14	13	11	
Federal Reserve banks	11	17	16	17	
Government accounts	19	26	27	29	
Total gross debt outstanding	100	100	100	100	

*Less than $50 million.
r 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, certain Government deposit accounts, and Government-sponsored agencies.

compared with a decline of $0.8 billion in fiscal 1973. At the end of the fiscal year individuals' holdings of E and H savings bonds and U.S. savings notes totaled $61.9 billion and holdings of marketable securities was $18.8 billion.

Insurance companies.—During fiscal 1974 insurance companies' holdings of public debt securities fell by $0.4 billion which was about the same as in fiscal 1973. Holdings of Federal agency securities were also down slightly for the year. On June 30, 1974, insurance companies held $5.9 billion of public debt securities and $0.4 billion of Federal agency issues.

Savings institutions.—Savings and loan associations decreased their holdings of public debt obligations by $1.1 billion during the fiscal year. In addition their holdings of Federal agency securities declined slightly. At the end of fiscal 1974, savings and loans held $4.6 billion of public debt securities and $0.5 billion of Federal agency obligations.

On June 30, 1974, mutual savings banks held $2.6 billion of public debt securities, a decline of $0.6 billion from the previous year. Their holdings of Federal agency securities declined by $0.2 billion following a modest $0.1 billion increase in fiscal 1973. At the end of the fiscal year mutuals held $0.4 billion of Federal agency securities.

State and local governments.—State and local governments held public debt securities totaling $28.3 billion at the end of the fiscal year. This reflected a decrease of $0.5 billion over the year compared with a $1.9 billion increase in holdings the previous fiscal year. However, State and local governments increased their holdings of Federal agency securities by $0.6 billion during the year. At the end of the year they held $3.8 billion of these securities.

Foreign and international.—In fiscal 1974 foreign investors' holdings of public debt securities declined by $2.6 billion compared with an increase of more than $10 billion in fiscal 1973. Holdings of special nonmarketable issues declined by $3.4 billion while holdings of marketables increased $0.8 billion. The increase in marketables was concentrated in Treasury bills where $2.6 billion was added to their portfolios. Holdings of Treasury notes and bonds, however, declined by $1.8 billion. Holdings of Federal agency securities showed little change and at the end of the fiscal year foreign investors held $0.5 billion of these securities.

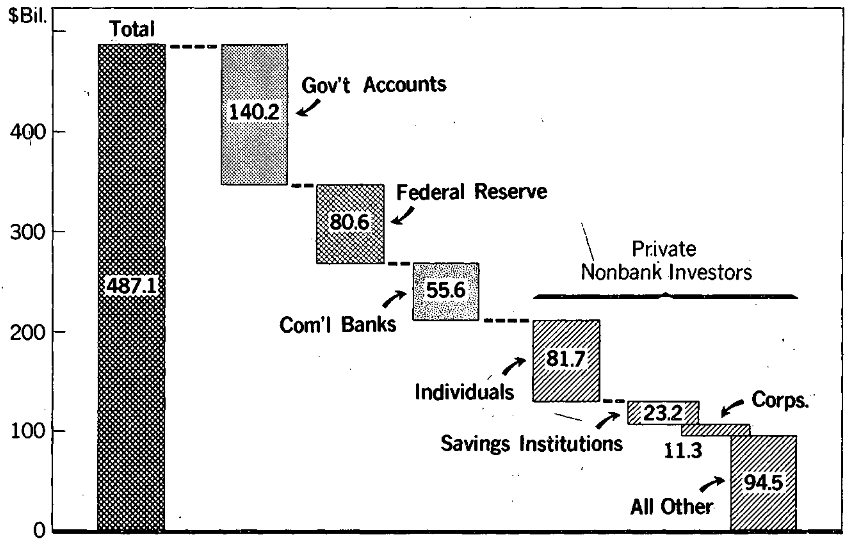
Nonfinancial corporations.—Corporations continued to add to their holdings of both public debt and agency securities. Corporate holdings of public debt securities increased by $1.0 billion over the fiscal year to $10.8 billion. Holdings of agency issues increased by $0.3 billion to $0.5 billion.

Other private nonbank investors.—Holdings of public debt securities by private nonbank investors increased by $1.7 billion during fiscal 1974, compared with an increase of $2.5 billion in the previous year. These investors held $12.7 billion of Treasury securities on June 30, 1974.

Commercial banks.—Commercial banks' holdings of Treasury securities declined for the third successive year as banks liquidated securities to help meet loan demand. Commercial banks' holdings amounted to $53.2 billion, a decline of $5.6 billion. At the end of the year, banks held Federal agency securities totaling $2.4 billion, a gain of $0.5 billion for the year.

Federal Reserve System.—The Federal Reserve System acquired $5.5 billion of public debt securities during the year increasing their total holdings to $80.5 billion. Federal Reserve's holdings of agency securities declined slightly. At the end of the year, the System held $0.2 billion of agency securities, about the same as in fiscal 1973.

OWNERSHIP OF FEDERAL SECURITIES, JUNE 30, 1974



Government accounts.—Holdings of public debt securities by Government accounts increased $14.8 billion. The majority of the increase was in their holdings of special nonmarketables which increased by $13.7 billion. Government accounts' holdings of marketable public debt securities increased by $1.1 billion compared with $0.2 billion in fiscal 1973. Holdings of Federal agency securities were slightly lower than in fiscal 1973. At the end of the fiscal year they held almost $2 billion of agency issues.

Financing operations

The fiscal year began under conditions of real economic growth advancing moderately at a rate of between 3 and 4 percent per year. However, inflation, which many had thought to be under control domestically, was again emerging as a major policy problem and, with Federal Reserve policy clearly restrictive, interest rates had risen sharply.

The Treasury ended the previous fiscal year with an operating balance of $12.6 billion. With both receipts and outlays working to hold down cash drains in July and with foreign redemptions of special nonmarketable issues only moderate, the Treasury came up to the August financing operation with a larger than usual cash balance. On July 25, the terms of the refunding were announced. A total of $4.5 billion of new issues were to be offered to partly refund the $5.7 billion maturing notes and bonds. New coupon securities offered consisted of $2.0 billion of an additional amount of 7¾ percent 4-year Treasury notes and $0.5 billion of 7½ percent 20-year bonds callable in 15 years. In addition, $2.0 billion of 35-day September tax anticipation bills were offered. All of the new securities were to be sold by competitive bidding, with awards for the bonds to be made by the uniform-price method in which all accepted tenders are awarded bonds at the lowest accepted price.

While the financing community generally anticipated the terms of the financing, financial markets worsened shortly after terms of the financing were announced, and the bidding on the two coupon issues was generally unenthusiastic. The $2.0 billion of 4-year 7¾ percent notes, auctioned July 31, drew only $2.1 billion competitive tenders. An average price of 99.07, a yield of 8.03 percent, was set in the auction and $0.6 billion of noncompetitive tenders were accepted at that price. The $0.5 billion of 7½ percent bonds, auctioned August 1, attracted only $235 million competitive and $26 million noncompetitive bids from the public. The low price, at which all awards were made, was 95.05 yielding about 8 percent. The remainder of the public issue was allotted to Federal Reserve banks and Government accounts. The $2.0 billion of 35-day tax anticipation bills, auctioned on August 8, brought an average price of 99.05 to yield 9.802 percent. Commercial banks were allowed 50 percent tax and loan account credit in paying for their own or their customers' awards, and acquired $1.9 billion, or 96 percent, of the issue.

Conversely, debt markets rallied shortly after the financing as slow growth in the previous 2 months' monetary aggregates led investors to anticipate an easing in Federal Reserve policy. As a consequence, the new issues posted substantial price increases, and by September the market price declines that had occurred immediately following the financing announcement had been largely recovered.

In light of projected cash needs in early September, an offering of $2.0 billion of 25-month 8⅜ percent notes was announced on August 20, for auction August 24. These notes, part of the cycle of end-of-quarter 2-year notes instituted in fiscal 1973, were auctioned at an average price of 100.80 to yield 7.94 percent. Reception of the issues was good given the generous coupon and declining market rates, and $4.3 billion of competitive and $0.5 billion of noncompetitive tenders were received.

To cover heavy seasonal cash drains in October, the Treasury announced on October 16 the auction on October 25 of $2.0 billion of tax bills due April 19, 1974. With full tax and loan account credit allowed for payment of the issue, commercial banks were awarded 99 percent of the offering at an average price of 96.824 to yield 6.765 percent.

Offerings of marketable Treasury securities excluding refunding of regular bills, fiscal 1974

[In millions of dollars]

Date	Description	Cash offerings: For new money	Cash offerings: For refunding	Allotted to Federal Reserve and Gov't. accounts	Total	Average auction yield (percent)
	NOTES AND BONDS					
1973						
Apr. 1	1½-percent note, Apr. 1, 1978 [1]		(*)	(*)	(*)	
Aug. 15	7¾-percent note, Aug. 15, 1977		2,026	628	2,654	8.03
Aug. 15	7½-percent bond, Aug. 15, 1988–93 [2]		261	665	926	8.00
Sept. 4	8⅜-percent note, Sept. 30, 1975	2,043			2,043	7.94
Oct. 1	1½-percent note, Oct. 1, 1978 [1]			3	3	
Nov. 15	7-percent note, Nov. 15, 1979		2,021	220	2,241	6.82
Nov. 15	7-percent note, Dec. 31, 1975		1,511	220	1,731	6.91
Nov. 15	7½-percent bond, Aug. 15, 1988–93 [2]		302	136	438	7.35
1974						
Feb. 15	7-percent note, Feb. 15, 1981		1,515	327	1,842	6.95
Feb. 15	6⅞-percent note, Feb. 15, 1977		2,258	307	2,565	6.70
Feb. 28	7½-percent bond, Aug. 15, 1988–93 [2]		300	250	550	7.46
Apr. 9	8-percent note, Mar. 31, 1976	1,532			1,532	8.08
Apr. 1	1½-percent note, Apr. 1, 1979 [1]			1	1	
May 15	8¾-percent note, Aug. 15, 1978		1,879	583	2,462	8.73
May 15	8¾-percent note, June 30, 1976		2,047	656	2,703	8.73
May 15	8½-percent bond, May 15, 1994–99 [2]		309	279	588	8.23
	Total notes and bonds	3,575	14,429	4,275	22,279	
	BILLS (MATURITY VALUE)					
	Change in offerings of regular bills:					
1973	July–September	−298			−298	
	October–December	3,015			3,015	
1974	January–March	35			35	
	April–June	2,207			2,207	
	Total change in regular bills	4,959			4,959	
	Tax anticipation bill offerings:					
1973						
Aug. 15	9.802 percent, 35-day, maturing Sept. 19, 1973	2,017			2,017	
Nov. 1	6.765 percent, 169-day, maturing Apr. 19, 1974	2,007			2,007	
Nov. 30	7.830 percent, 140-day, maturing Apr. 19, 1974, additional	1,002			1,002	
Nov. 30	7.790 percent, 203-day, maturing June 21, 1974	2,000			2,000	
1974						
Mar. 4	7.450 percent, 46-day, maturing Apr. 19, 1974, additional	1,516			1,516	
Mar. 29	8.306 percent, 84-day, maturing June 21, 1974, additional	2,523			2,523	
	Total tax anticipation offerings	11,065			11,065	
	Total offerings	19,599	14,429	4,275	38,303	

*Less than $500,000.

[1] Issued in exchange for 2¾ percent Treasury bonds, investment series B–1975–80.

[2] Uniform-price auction; all accepted bids awarded at the highest accepted yield.

As the November financing approached, an embargo of oil shipments was announced by Arab producers. At least in part because of this, many economic analysts began predicting slower real growth or a decline in GNP in ensuing quarters. At the same time, inflation was becoming an even greater problem. The Federal Reserve appeared to have eased its earlier restrictive policy stance. The result was general decline in credit market rates during the months preceding the Treasury's November financing.

On October 24, the Treasury announced it would auction \$1.5 billion of 25½-month notes, \$2.0 billion of 6-year notes, and an additional \$0.3 billion of 19¾-year 7½ percent bonds originally offered August 1973. Coupons of 7 percent were announced for the two notes on October 29. The \$2.0 billion of 6-year notes were accorded a good reception and were auctioned at an average price of 100.88 which yielded 6.82 percent. Competitive tenders of \$2.9 billion and noncompetitive bids of \$203 million were received. The \$1.5 billion 25½-month notes were more enthusiastically greeted with \$2.9 billion in competitive tenders producing an average auction price of 100.14 to yield 6.91 percent. Noncompetitive bids totaled \$235 million and were fully awarded at the average price.

Interest in the reopened 7½ percent 19¾-year bonds was in marked contrast to its showing in its original August offering. Competitive bids totaled \$1,300 billion and noncompetitive \$53 million. All awards were made at the lowest accepted competitive price of 101.60 which yielded about 7.35 percent to maturity.

Following the quarterly financing, short-term cash requirements and accelerating redemptions of Treasury securities held by foreign central banks brought the Treasury back to market. On November 5, a \$1.1 billion bill strip was announced for auction November 9. The strip was composed of 11 \$100 million additions to the weekly bills maturing from November 23, 1973, through January 31, 1974. The strip attracted \$2.5 billion in tenders with the auction setting an average price of 98.962 to yield 9.67 percent on a bank discount basis. The Treasury announced an additional cash operation on November 21, consisting of \$3.0 billion of tax anticipation bills to be auctioned November 28, of which \$1.0 billion represented an additional amount of April 19, 1974, bills and \$2.0 billion of a new issue to mature June 21, 1974. The average accepted rate on the April bills was 7.830 percent and on the June bills, 7.790 percent. Tax and loan account credit of 50 percent was permitted to commercial banks which acquired 70 percent of the April 19 tax bills and 82 percent of the June 21 tax bills.

The Treasury ended the calendar year with an operating balance of \$10.4 billion, in part reflecting the continuing need for the Government to maintain higher than usual contingency balances in the absence of the Treasury borrowing authority from the Federal Reserve.

Worsening inflation, the oil embargo, the strength of the dollar with its implications of possible foreign liquidation of nonmarketable special Treasury issues and additional Treasury cash needs, and an apparent easing in monetary policy produced many crosscurrents of interest rate and credit expectations as the year began. For the most part, however, short-term interest rates moved lower in January, while long-term yields held relatively steady.

The initial details of the Treasury's February financing were announced on January 30. A total of $4.05 billion of new issues were offered to partially refund the $4.5 billion of maturing securities. The new issues were: $2.25 billion of 3-year, 3-month notes to be auctioned on February 6; $1.5 billion of 7-year notes to be auctioned on February 5; and an additional $300 million of the 7½ percent bonds of August 1988–93 to be sold by uniform-price auction on February 7. On February 4, coupons of 6⅞ percent and 7 percent were announced for the 39-month and 7-year notes, respectively.

The 7 percent, 7-year notes were auctioned at an average price of 100.28, yielding 6.95 percent. Tenders for the $1.5 billion issue totaled $3 billion, including $100 million of noncompetitive tenders which were accepted in full at the average price. Public subscriptions to the 6⅞ percent notes totaled $3.1 billion; and the average price in the auction was set at a premium of 100.51, equivalent to a yield of 6.70 percent. About $300 million of noncompetitive tenders were awarded at the average price. Response to the reopened 7½ percent bond was especially enthusiastic. Tenders from the public for the $300 million offering amounted to $1.1 billion and the stop-out price at which all awards were made was set at 100.45 for a yield to maturity of 7.46 percent. Accepted tenders for the bond included noncompetitive subscriptions totaling $31 million.

Despite the favorable response to the refunding, the market was "whipsawed" after the auctions by conflicting attitudes toward the future of interest rates. Thus, the market performance of the new issues was mixed and market participants began to focus more attention on the timing and form of the $4.5 billion of additional Treasury borrowing that Under Secretary Volcker had indicated might be needed before mid-April.

On February 20, the Treasury announced the auction of $1.5 billion of April tax anticipation bills to be held February 26 with payment March 4. Commercial banks were allowed full tax and loan account credit in paying for their own and their customers' accepted tenders. In this first of the Treasury's spring short-term financing operations, an average price of 99.048, equivalent to a bank discount rate of 7.450 percent, was set. Commercial banks were allotted 99 percent of the issue.

The second short-term cash financing in the first quarter was announced on March 20 and consisted of $2.5 billion of additional June 21 tax anticipation bills to be auctioned March 26 for payment March 29. The average price was 98.062, or a rate of 8.30 percent on a bank discount basis. Again, virtually all of the issue was taken in the first instance by commercial banks which were again granted full tax and loan account credit in paying for the bills.

As March progressed, the drain on the Treasury's cash position proved somewhat larger than earlier anticipated. Budget outlays ran ahead of expectations, perhaps in part due to inflation; whereas with the slowing in the economy receipts fell below projections. Consequently, on March 20 the Treasury also announced that on March 28 it would auction $1.5 billion of 2-year notes to mature March 31, 1976. A coupon rate of 8 percent was announced the day before the auction. In an atmosphere of economic uncertainty and security market weakness, response to the issue was not enthusiastic and only $1.7 billion of tenders were received, nearly $500 million of which represented noncompetitive bids which were accepted at the average price of 99.85 to yield 8.08 percent.

Following the April tax date, the Treasury's cash position increased sharply and by the end of the month the operating balance stood at $11.5 billion. In light of this very large balance and because of the thinness of the margin remaining under the temporary debt ceiling, the Treasury announced on May 1 that it would only offer $4.05 billion of new securities in the May refunding and would use available cash to pay off the remaining $1.55 billion of May 15 maturing issues. At the same time, to meet a portion of its late May and early June needs, the Treasury announced that the weekly bill offerings for the weeks May 16 through June 13 would be increased by $200 million.

Three new issues were offered in the May refunding: $2 billion of June 30, 1976, notes; $1.75 billion of August 1978 notes; and $300 million of May 1999 bonds, callable after May 15, 1994, and bearing an 8½ percent coupon—the highest coupon on a U.S. Treasury bond since the mid-19th century. The coupons on the notes were announced on May 3; but because of the likely high rate and the consequent implications for disintermediation from thrift institutions, the initial financing announcement raised the minimum denomination of tenders for the two notes to $10,000 from the usual $1,000. On May 3, a coupon of 8¾ percent was announced for both the 25½-month and the 4-year 3-month issues in a market atmosphere of considerable caution and underlying weakness.

Despite continued market erosion prior to the auctions of the $1.75 billion of 4¼-year notes on May 7, demand for the issue proved quite active with some $3.5 billion of tenders submitted by the public, including $800 million of noncompetitive bids which were awarded at the average price of 100.07 to yield 8.73 percent.

The strong interest in the longer note carried through the next day to the auctions of the June 1976 note and the long bond. In the $2 bil-

Disposition of marketable Treasury securities excluding regular bills, fiscal 1974

[In millions of dollars]

Date of retirement	Securities: Description and maturing date	Securities: Issue date	Redeemed for cash or carried to matured debt	Exchanged for new issue at maturity	Total
	NOTES AND BONDS				
1973					
Aug. 15	8⅛-percent note, Aug. 15, 1973	Feb. 15, 1970	1,514	325	1,839
Aug. 15	4-percent bond, Aug. 15, 1973	Sept. 15, 1963	3,166	728	3,894
Oct. 1	1½-percent note, Oct. 1, 1973	Oct. 1, 1968	30		30
Nov. 15	4⅛-percent bond, Nov. 15, 1973	July 22, 1964	3,760	576	4,336
1974					
Feb. 15	7¾-percent note, Feb. 15, 1974	Aug. 15, 1970	2,618	342	2,960
Feb. 15	4⅛-percent bond, Feb. 15, 1974	Jan. 15, 1965	1,924	542	2,466
Apr. 1	1½-percent note, Apr. 1, 1974	Apr. 1, 1969	34		34
May 15	7¼-percent note, May 15, 1974	Nov. 15, 1970	3,335	999	4,334
May 15	4¼-percent bond, May 15, 1974	May 15, 1964	2,328	519	2,847
	Total coupon securities		18,709	4,031	22,740
	BILLS				
1973					
Sept. 19	9,803 percent (tax anticipation)	Aug. 15, 1973	2,017		2,017
1974					
Apr. 19	6,765 percent (tax anticipation)	Nov. 1, 1973	2,007		2,007
Apr. 19	7,830 percent (tax anticipation)	Nov. 30, 1973	1,002		1,002
Apr. 19	7,452 percent (tax anticipation)	Mar. 4, 1974	1,516		1,516
June 21	7,790 percent (tax anticipation)	Nov. 30, 1974	2,000		2,000
June 21	8,306 percent (tax anticipation)	Mar. 29, 1974	2,523		2,523
	Total tax anticipation bills		11,065		11,065
	Total securities		29,774	4,031	33,805

lion note auction, bids by the public totaled $3.2 billion of which $716 million were submitted noncompetitively, and the average auction price was set at par, or a yield of 8.73 percent after adjustment for delayed payment of the interest earned from May 15, to June 30, 1974.

Interest in the long bond, particularly by small investors, was very strong and tenders from the public totaled just over $900 million. Noncompetitive bids accounted for $115 million of the $300 million of final awards of the bond. Having been auctioned by a uniform-price auction, all awards of the bonds were made at the lowest accepted price of 102.85, or a yield of 8.23 percent to maturity and 8.21 percent to the issue's first call date.

Because of the exceptionally heavy interest in all three issues, many investors did not receive their expected awards. Consequently, although monetary conditions remained stringent during May and many observers looked for even higher interest rates in the future, demand for the new issues was brisk and the price of all three rose moderately.

On May 22, the Treasury announced that it would raise $800 million of new cash to meet its remaining early June needs through auctioning a strip of eight bills which would add $100 million to the outstanding weekly bills maturing from September 19 through November 7. Full tax and loan account credit was allowed to commercial banks in paying for the issue. Tenders to the strip totaled $2.5 billion and an average issuing bank discount rate of 8.284 percent was set in the auction.

No other financing operations were undertaken between the strip auction and the end of the fiscal year. Reflecting the usual buildup in its balances following the quarterly tax date, even with the redemption and payoff of maturing June tax anticipation bills, the Treasury's operating balance increased to a level of $9.2 billion by June 30.

Federal Financing Bank

As of June 30, 1974, the Federal Financing Bank had approved three loans totaling $627 million. They were the first loans made by the bank, which was created on December 29, 1973, by Public Law 93–224 to coordinate under a single agency the many Federal and federally assisted borrowing programs.[1]

The bank purchased from the Student Loan Marketing Association a $100 million 91-day obligation, bearing interest at 8.975 percent, and guaranteed by the Department of Health, Education, and Welfare; and from the U.S. Postal Service a $500 million 1-year obligation, bearing interest at 9.305 percent.

The bank has committed to purchase $27,641,000 of obligations that had previously been purchased by the Department of Health, Education, and Welfare from 20 public agencies under the Hill-Burton program for support to community hospitals. To date, the Federal Financing Bank has advanced $2 million, bearing interest at 8⅝ percent. This loan is guaranteed by the Department of Health, Education, and Welfare.

ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS

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, Operations, and Tariff Affairs) 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.

Law Enforcement and Operations

The Deputy Assistant Secretary for Enforcement and Director, Office of Law Enforcement, developed and reviewed the policy and

[1] See exhibits 29, 30, and 31.

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; and interaction of strategy with other departments, agencies, and governments. He had primary cognizance over the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the Consolidated Federal Law Enforcement Training Center, the anti-narcotics-traffic program of IRS, 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 nonenforcement activities, adequacy of long-range planning. The Deputy Assistant Secretary had primary cognizance over Customs, Mint, and Engraving and Printing.

Antinarcotics program

Treasury continued to provide a high level of support for its antinarcotics activities.

The narcotics trafficker program of the Internal Revenue Service, initiated in July 1971, achieved increasingly significant results during fiscal 1974. The program identified known or suspected traffickers who had been violating the Federal income tax laws and, through the enforcement of the tax laws, eliminated or reduced their drug activities. While those in upper and middle echelons of the drug distribution system were of primary interest to the IRS investigators, millions of dollars were collected from lower level operators, many of whom had failed to file income tax returns. The Drug Enforcement Administration and other Federal and local agencies assisted the IRS in selecting targets for investigation and in collecting monies due the Federal Government.

In fiscal 1974, 421 alleged major drug dealers, smugglers, and financiers were selected for tax investigations, while 1,404 at lower levels were subjected to other tax enforcement action. IRS agents recommended additional assessments of $75.6 million in taxes and penalties and collection officers brought in $16.5 million. Indictments were returned against 86 major traffickers and 88 convictions were obtained. Due to the normal delays in the judicial processes, the convictions reported are not necessarily related to the indictments issued during fiscal

1974. The IRS allocated 852 agent man-years to the program in fiscal 1974.

Treasury participated in activities of the Cabinet Committee on International Narcotics Control, with particular emphasis on customs-to-customs programs for advising and training foreign customs border control officials. Mobile tactical interdiction units of the U.S. Customs Service, located in strategic border areas, continued to make heavy inroads on narcotics-smuggling activity from Mexico.

Organized crime

Treasury agencies continued their contribution of manpower and resources to the joint strike force program operating against organized crime in 18 major cities throughout the country under the direction of the Department of Justice. Treasury's own programs supported the organized crime drive through:

(1) The Treasury Organized Crime Council;

(2) The narcotics programs of IRS and Customs;

(3) Action against major counterfeiting and bond forgery operations by the Secret Service;

(4) The cargo security program of Customs; and

(5) The attack on illicit liquor traffic and the suppression of illegal use of firearms and explosives by the Bureau of Alcohol, Tobacco and Firearms.

Counterfeiting

In fiscal 1974, counterfeiters continued to produce large volumes of counterfeit currency. However, for the second consecutive year, the amount of currency circulated to the public dropped from a record high of $4.8 million in fiscal 1972. While losses to the public amounted to $2.4 million, the Secret Service seized $19 million prior to circulation. Loss to the public was reduced about $1 million, or 27 percent, from the previous year.

Presidential and foreign dignitary protection

The protection of those individuals authorized such protection by law continued to be the primary responsibility of the Secret Service. Permanent protective divisions were maintained for the security of the President, First Family, Vice President, widows of former Presidents, John F. Kennedy, Jr., Secretary of the Treasury, and Secretary of State.

Foreign dignitaries visiting the United States and special representatives of the United States traveling abroad generated an unprecedented volume of temporary protective activities. During fiscal 1974, the Secret Service provided protection to 140 foreign dignitaries visiting the United States. In addition 11 official representatives of the

United States performing special missions abroad were protected at the direction of the President. This represents an increase of 37 percent over fiscal 1973.

Treasury enforcement communications system (TECS)

Since December 1972, TECS has provided the law enforcement arms of the U.S. Customs Service, Bureau of Alcohol, Tobacco and Firearms, and the Intelligence and Security Divisions of the Internal Revenue Service not only direct communication capability among their respective field and headquarters personnel, but also access to commonly indexed Treasury law enforcement information and to data in the FBI National Crime Information Center.

During fiscal 1974, TECS processed an average of 150,000 transactions per day. This produced approximately 1,200 hits (data of interest to the investigator), which resulted in over 360 arrests.

Three important expansions occurred. The Washington National Central Bureau of Interpol became a participant in TECS, with appropriate specific limitations on access and release of data. Subsequently, an interface with the Drug Enforcement Administration, and an interface with local and State enforcement agencies, the latter through the national law enforcement teletype system (NLETS), were established. Both actions significantly increased the effectiveness of TECS as support to enforcement agencies in containing and deterring illegal activities and apprehending criminals.

Anti-terrorism

Treasury, as a member of the Cabinet Committee to Combat Terrorism, continued to participate in the development of the President's program to thwart international terrorism and to establish emergency plans for coping with terrorist incidents. The Office of the Secretary, the U.S. Secret Service, the U.S. Customs Service, and the Bureau of Alcohol, Tobacco and Firearms contributed to various goals of the anti-terrorism campaign through intensified intelligence and security measures and more responsive emergency teams.

Interpol

In fiscal 1974, the U.S. National Central Bureau of the International Criminal Police Organization processed a total of 3,916 investigative requirements. Of these cases, 926 were requests for foreign investigation on behalf of U.S. enforcement agencies. In contact with 86 other countries, Interpol Washington transmitted 3,292 radio, telex, and cable messages and received 4,227 messages.

Treasury led the U.S. delegation to the 42d Interpol General Assembly in Vienna, Austria, in September of 1973. The General Assembly adopted substantive resolutions and proposals concerning Interpol's participation in anti-terrorist activities and curbing drug abuse and trafficking.

In April 1974, Treasury headed the U.S. delegation to the fourth American Regional Conference in Panama, which examined the problems of drug trafficking, counterfeiting, theft of art, weapons trafficking, and financial frauds in the hemisphere.

Illustrating police cooperation through Interpol was a report from Interpol The Hague advising of the arrest of a British national involved in international narcotics trafficking. The contents of his pocket diary were furnished to the U.S. Customs Service and resulted in the indictment of 11 people in the United States on conspiracy charges.

In another case, the San Francisco Police Department requested Interpol's assistance in locating a double homicide fugitive. All-points bulletins to Southeast Asian Interpol bureaus resulted in the location of the subject in Singapore, where he is presently undergoing proceedings for extradition to the United States.

Financial recordkeeping

The Federal bank supervisory agencies fully implemented Treasury's Financial Recordkeeping and Reporting Regulations, issued in 1972 as part 103, 31 CFR, which establish certain recordkeeping and reporting requirements for banks and many other financial institutions. The regulations require the maintenance of records that the Secretary of the Treasury has found to be highly useful in the investigation of tax, regulatory, and criminal matters. They also provide for reports of unusual domestic currency transactions, the ownership of a foreign bank account, and the international transportation of currency or other monetary instruments. One of the major objectives of the regulations is to discourage the use of foreign banking facilities to further illegal activities.

The Assistant Secretary of the Treasury has overall responsibility for assuring compliance with the regulations and for coordinating the efforts of the agencies that have been delegated enforcement responsibilities. Those agencies include the Federal bank supervisory agencies, the Federal Home Loan Bank Board, the National Credit Union Administration, the Securities and Exchange Commission, the U.S. Customs Service, and the Internal Revenue Service.

In 1972, the California Bankers Association, the American Civil Liberties Union, and Mr. Fortney H. Stark, Jr., challenged the constitutionality of the regulations and the underlying law. While the matter was pending in the courts, Treasury was restrained from requiring banks to file reports of unusual domestic currency transactions. On April 1, 1974, the U.S. Supreme Court upheld both the law and the regulations and, as of June 15, 1974, the reporting requirement was reinstituted (31 CFR Part 103, Notice).

Transnational financial crimes and frauds

During fiscal 1974, Treasury began a program to disrupt the transnational movement and sequestering abroad of assets involved in organized crime and other criminal activities, including tax evasion, smuggling, and securities frauds. Discussions were initiated with governments of countries with important financial centers, where criminal elements maintain funds or utilize banking facilities, to determine the extent of cooperation and mutual assistance which might be forthcoming through exchanging information.

Explosives enforcement program

Bureau of Alcohol, Tobacco and Firearms responsibilities under the explosives laws led Treasury to establish an interagency committee to undertake research on seeding, tagging, and detection of explosives. Several agencies, including the FBI, Law Enforcement Assistance Administration, Secret Service, Customs, and Federal Aviation Administration, participated in and contributed to this project. $600,000 in technical research grants was awarded, with ATF as the proponent agency. Treasury has included more than $2 million in appropriations requests to further this project, with the objective of having within 2 years a viable detection capability as a defense against explosive bombings.

Cargo security program

The Office of Operations continued Treasury's collaboration with the Department of Transportation and other departments and agencies in advancing a cooperative program with the transportation industry 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.

Automated merchandise processing system (AMPS)

Customs AMPS program to automate the examination, classification, appraisal, and liquidation of entries of imported merchandise was brought to the working concept stage in June 1974. Equally important with the computerization aspects of the concept is the identification of many forms, procedures and regulations for streamlining prior to computer systems design.

Simultaneously, an early implementation system (EIS), covering selected segments of AMPS, was installed in Philadelphia and its preliminary testing was completed by the end of the year. EIS will provide immediate operating assistance to hard-pressed customs officials as it is extended to other ports over the next 2 years.

Engraving and printing

Following contractor and departmental studies of expansion sites, a decision was reached to build additional plant capacity for the Bureau of Engraving and Printing on the South Portal site in Washington immediately across 14th Street from the present Bureau building. A thorough diagnostic study of the Bureau's operations and management was completed by the Arthur D. Little Co.

Mint

A growing shortage of pennies and the rising cost of copper led the Mint to generate a public campaign for the return of pennies to circulation and to propose legislation permitting the Secretary of the Treasury to change the penny alloy to a high aluminum content.

Steadily rising requirements for coinage were met by instituting coinage operations at the West Point Depository and by temporarily diverting personnel resources at the Philadelphia Mint from clad strip production to coinage. Interference by railroad activities at the site for a new mint in downtown Denver led to abandonment of the urban center plan and selection of a new site on the city's outskirts.

Designs were selected through a national competition for the coinage to commemorate the American Revolution Bicentennial, which will bear the dates "1776–1976." The Mint also continued production of special medals for the Bicentennial.

Tariff Affairs

The Office of Tariff Affairs, established in 1971, provides policy direction and review of the actions and recommendations of the Customs Service on administration of the Antidumping Act and the countervailing duty law. Action under these statutes serves as the principal method by which the Federal Government protects domestic industries from unfair trade practices by foreign companies and governments.[1] Additionally, the office has responsibility for policy review of other actions under the tariff laws, such as classification, valuation, marking, and quota regulations.

[1] See exhibit 40.

Treasury, in cooperation with the Customs Service, has increased efficiency in the handling of antidumping cases to ensure expeditious administration of the act. During 1968, the average number of days to complete an investigation was 560, with some cases taking 2 years or longer. The average completion time during 1974 was reduced to 240 days. Prompt processing of cases is advantageous to both the domestic industry, which is ensured a speedy defense should there be an injurious price discrimination, and the importer, our trading partners and their citizens, who are relieved of the burden of uncertainty during lengthy investigations.

Ten antidumping cases were initiated in fiscal 1974 as compared with 27 in fiscal 1973. Treasury published findings of dumping in 13 out of 24 final decisions. Nineteen pending cases had been carried over from 1973 and 3 from 1972.

During the year, Treasury adopted a policy in antidumping cases which ensures even greater fairness to all parties concerned by holding hearings with a written record. Also, the office published a compilation of adjustments and issues in antidumping cases which gives public notice of technical decisions made in past cases.

The countervailing duty law is designed to offset the harmful effects of a "bounty or grant" paid by foreign governments on exports to the United States by requiring the Secretary of the Treasury to assess an additional duty equivalent to the amount of the bounty, if one is found to exist. After years of inactivity under this law (no actions between 1959 and 1967), Treasury has countervailed 14 times since 1968. Although there was only one such action in fiscal 1974, the number of cases under active consideration at the end of the year was greater than at any previous time.

The Trade Analysis Section continued research on foreign price discrimination and foreign subsidies, and the impact of such practices on the U.S. economy, as well as on the U.S. balance of payments.

The Office of Tariff Affairs also undertook the review of classification and value cases and country of origin and marking cases, and made recommendations in cases involving coastwise trade exemptions covered by the Jones Act. In addition, the office contributed to development of the study to adopt the Brussels Tariff Nomenclature for classification of imported merchandise.

Treasury supplied major inputs for the sections of the Trade Reform Act of 1973 concerning antidumping and countervailing duties.

TAX POLICY

Legislation

During fiscal 1974, the Treasury submitted legislative proposals to tax the windfall profits of oil producers arising from the energy crisis and to introduce changes in the taxation of foreign source oil and gas income. The Treasury also restated the administration's tax proposals of April 1973 in the course of working with the House Committee on Ways and Means in its consideration of other changes in the tax law, and continued to work closely with the Congress on pension reform.

Energy.—On December 19, 1973, the President announced the administration's recommendation of a windfall profits tax designed to recapture the windfall profits that would otherwise be realized by the oil producers as a result of the oil crisis and the skyrocketing price of crude oil brought on especially by the Arab oil embargo. As part of a broad legislative package dealing with the energy crisis, the President repeated the proposal for enactment of a windfall profits tax in his message of January 23 to the 93d Congress, and again urged the Congress to enact this tax in his state of the Union message, January 30, 1974.

On February 1, the Treasury formally submitted to the Congress the Emergency Windfall Profits Tax Act of 1974. In support of this bill the Secretary, in testimony before the House Ways and Means Committee on February 4, detailed the proposed tax along with a group of proposals that the administration had presented to the committee on April 30, 1973, including an exploratory drilling credit, a minimum taxable income, and a limitation on artificial accounting losses.[1]

The following are the main features of the emergency windfall profits tax as it was proposed:

(1) The tax is designed to recover excessive windfall profits from producers of oil, but without interfering with the legitimate profit expectations which are necessary to meet the country's demands for oil and gas and reduce its dependence on foreign supplies. It is also designed to prevent any tax-generated price increase for consumers of oil and gas.

(2) The tax is based on graduated rates ranging up to 85 percent depending on the amount of per barrel price in excess of the base price. The tax will be large if the oil shortage is severe and price increases large, but modest if the shortage and price increase are modest. When the higher prices increase oil supplies and gradually reduce prices and hence the windfall profits, the tax should also disappear. Accordingly, as the period of extraordinary profits is expected to be limited in duration, the proposed tax is to expire by its terms 60 months after the date of enactment.

[1] See exhibit 44.

(3) The phaseout of the tax as the windfall disappears makes it likely that the tax will be absorbed by the producer rather than passed on to the consumer in higher prices.

In his testimony to the House Committee on Ways and Means on February 4, 1974, Secretary Shultz also submitted proposed changes in the taxation of foreign source oil and gas income, in accordance with the President's recommendations in his message on the energy crisis of January 23, 1974. These proposals would have: (1) Limited the amount of tax paid to foreign governments with respect to oil and gas income which would be creditable tax to 48 percent of taxable income, determined under U.S. standards, from foreign oil and gas properties, with the excess being deductible; (2) provided that 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 (a restatement of the President's proposal of April 10, 1973); and (3) repealed the deduction for percentage depletion with respect to oil and gas wells located outside of the United States and its possessions.

The House Committee on Ways and Means reported out on May 4, 1974, the proposed Oil and Gas Energy Tax Act of 1974 (H.R. 14462), which reflects the Treasury proposals but with some substantial amendments. The major revisions made by the committee are as follows: (1) To permit the windfall profits tax liability to be reduced by a "plowback credit" for investments in the exploration and development of oil and gas; (2) to phase out percentage depletion on domestic oil and nonregulated gas in three annual steps which reduce it to zero in 1977 (except that in certain cases such as stripper wells and production of up to 3,000 barrels per day the taxpayer may elect to compute the depletion at 15 percent until 1979, at which time it is to be reduced to zero); (3) to limit the foreign taxes on income from oil and gas extraction which may be used as a credit against U.S. taxes to 110 percent of the U.S. corporate tax rate; (4) to require oil and gas companies to use the overall limitation on the foreign tax credit with respect to their oil and gas operations; and (5) to remove from eligibility for DISC (domestic international sales corporation) treatment oil, gas, coal, or uranium or their primary products.

Tax reform proposals.—In addition, the Treasury has been working with the House Committee on Ways and Means in developing a bill which would encompass a number of changes in the taxation of both domestic and foreign income. In conjunction with these deliberations, the Treasury restated the administration's proposals of April 10, 1973, on foreign tax haven manufacturing corporations and the additional Treasury proposals of April 30, 1973, which included minimum taxable income, a limitation on artificial accounting losses, property tax relief for the elderly, and proposals to simplify the tax law.[1] The committee has not yet made final decisions on these matters but is considering changes in a number of provisions, including some of those covered by the administration's proposals plus changes in capital gains taxation and in a number of provisions affecting foreign source income.

Changes under consideration with respect to foreign source income include the method of computing the foreign tax credit limitation, the Western Hemisphere Trade Corporation provisions, the foreign earned income exclusion, the minimum distribution rules under subpart F, and the tax treatment of foreign trusts. The committee is also considering elimination of the U.S. withholding tax on dividends and interest on foreign portfolio investments in the United States.

On June 5, 1974, Secretary Simon appeared before the Senate Finance Committee to present the Treasury Department objections to a series of proposed amendments to the bill to increase the Federal debt ceiling.[2] The amendments would have repealed or cut back several business tax measures such as percentage depletion, the expensing of intangible drilling costs, the DISC provisions, the ADR system guidelines, and the investment credit and would have used the revenue gain to decrease individuals' tax liabilities. Secretary Simon urged that business taxes not be increased at a time when the economy needs increased investment.

Pension reform.—The Treasury continued to work closely with Congress throughout the year on measures to implement the President's April 11, 1973, proposals for strengthening the private pension system.[3]

H.R. 2, the pension reform bill, passed the House on February 28, 1974. It passed the Senate on March 4, 1974, and was sent to conference on that same day. The legislation incorporates in revised form the major proposals of the administration, including new standards for participation, vesting, and funding; a new deduction for contributions to individual retirement accounts; portability through rollover contributions to plans for self-employed individuals; new fiduciary standards; and new reporting and disclosure requirements. It also establishes a Government system of insuring against loss of benefits upon termination of pension plans; establishes limits on contributions and benefits under qualified retirement plans; establishes a declaratory judgment procedure in the Tax Court relating to qualification of re-

1 Published in 1973 Annual Report, pp. 366–80.
2 See exhibit 47.
3 See exhibit 43.

tirement plans; and provides for a new Assistant Commissioner of Internal Revenue for Employee Plans and Exempt Organizations.

Social security and railroad retirement.—Public Law 93–233, approved by the President on December 31, 1973, increased the taxable earnings base for social security and self-employment tax to $13,200 for 1974. This supersedes the increase in taxable earnings base to $12,600 in 1974 provided for in Public Law 93–66 (extending the Renegotiation Act of 1951); however, the increase in benefits and the liberalization of the retirement earnings limitation also provided by this act were not changed.

A cost-of-living adjustment effective in June 1974 provided a 5.6-percent increase in benefits. The annual retirement earnings limitation was increased from $2,100 to $2,400, effective January 1974; for earnings in excess of the limit, benefits are reduced by $1 for every $2 of earnings.

Public Law 93–69, approved by the President on July 10, 1973, changed the railroad retirement tax rates.

Other legislative developments.—H.R. 8214, which resolves certain income tax problems of prisoners of war and the families of those missing in action, particularly with respect to the combat pay exclusion, passed the House on August 3, 1973. It was reported out by the Senate Finance Committee on November 27, 1973, essentially as passed by the House but with a series of amendments; the bill was recommitted to that committee on January 24, 1974.

Public Law 93–310, approved on June 8, 1974, clarifies the exemption of cooperative arrangements formed by educational organizations for the collective investment of their funds.

H.R. 13870, relating to national health insurance and providing taxing levels to support such insurance, was introduced in the House and referred to the Committee on Ways and Means on April 2, 1974.

The Environmental Protection Tax Act of 1973, originally proposed by the Treasury in 1971, was reintroduced in this Congress as H.R. 5584. No action has yet been taken on this bill.

Administration, interpretation, and clarification of tax laws

The Department of the Treasury, during fiscal 1974, issued 35 final regulations, 3 temporary regulations, and 16 notices of proposed rule making relating to matters other than alcohol, tobacco, and firearms taxes. In addition, there were seven final regulations and three notices of proposed rule making relating to alcohol, tobacco, and firearms taxes. Among the subjects dealt with in these regulations and proposed regulations were stock dividends, full absorption inventory valuation, the interest equalization tax, depreciation of public utility property, disclosure of tax return information by tax return preparers, tax liens, the Presidential election campaign financing checkoff, foreign tax credit limitations, taxation of nonresident aliens, and capital loss carryovers. Also during the year a public hearing was held on the proposed regulations issued in June 1973 concerning the allocation and apportionment of deductions to gross income from sources within and without the United States.

DISC report

Pursuant to the Revenue Act of 1971, the Treasury submitted to the Congress a report on the operation and effect of the DISC legislation. The report, which is to be made annually, covered 1972.

Tax treaties

Two new income tax treaties were signed during the fiscal year. A treaty with Romania was signed on December 4, 1973, and one with Cyprus was signed on April 19, 1974. Both treaties are awaiting Senate approval. Negotiations of an income tax treaty with Poland were completed at the technical level and it is hoped that the treaty will be signed during 1974. A proposed treaty with Indonesia is also nearly ready for signature. Discussions with Jamaica and the Republic of China were continued during the year, and similar negotiations were held with Zambia. Preliminary discussions of an income tax treaty were also held with Yugoslavia.

An estate tax treaty with Luxembourg is almost ready for signature, and a new estate tax treaty with France, to replace the 1949 treaty, has been completed at the technical level and is being translated prior to signature.

Participation in 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 attended the annual general assembly of the Inter-American Center of Tax Administrators (CIAT).

Treasury representatives also participated in a meeting of the United Nations Group of Experts on Tax Treaties between Developed and Developing Countries, which continues to work on designing appropriate provisions for treaties between developed and developing countries.

INTERNATIONAL AFFAIRS

International Monetary and Investment Affairs

Foreign exchange developments and operations

The first full year of a generalized floating exchange rate regime was experienced in fiscal 1974. International trade continued to expand at a rapid pace in real as well as money terms. The shock to the financial system of the greatly increased prices of petroleum and the oil embargoes against some countries did not result in any closures of exchange markets, although it did contribute to wider movements in exchange rates.

The dollar reached its lowest level in the exchanges in the early days of July 1973 at the beginning of the fiscal year. For the first months of the generalized floating regime, which began in March 1973, rates held a fairly narrow range, close to the positions that had been agreed on, or were implicit in the 10-percent devaluation of the dollar announced in February 1973.[1] In mid-May the dollar began to depreciate, mainly against those Continental European currencies that remained in the joint float ("snake") or were closely allied to it, such as the Swiss franc and the Austrian schilling. The degree of depreciation accelerated sharply through June and until July 9, when a reversal began to take place.

The communique issued in March 1973 after a meeting of the Group of Ten and the EEC had taken note of the fact that official intervention in the exchange markets might be useful at appropriate times to facilitate the maintenance of orderly conditions, and it was envisaged that some of the preexisting "swap" facilities would be enlarged to facilitate such operations. Negotiations for the enlargement and the use of swap lines were concluded at Basel on July 8 during the monthly meeting of the central banking group and a statement was made to that effect. The announcement was followed by a Treasury and Federal Reserve decision that drawings should be made on the Federal Reserve swap lines. Sales of deutsche marks, French francs, and Belgian francs totaling the equivalent of $273 million were made during July 1973. The Bundesbank also purchased dollars in the market in a companion operation. The July intervention by the United States was fully reversed by market purchases of currencies in August.

The unexpected revaluation of the Netherlands guilder on September 15 caused speculative demand for the deutsche mark which was also expected to revalue. Sales of $157 million in DM drawn under swap lines by the Federal Reserve along with intervention by the Bundesbank effectively stemmed this mild speculation. Strengthening of the dollar in late October, triggered by figures showing an unexpectedly large U.S. trade surplus in September, allowed the Federal Reserve to repay its remaining DM swap debt.

The effects of the two dollar devaluations as well as the very sharp increase in agricultural exports had begun to show themselves in the U.S. trade position by the late summer of 1973 and a surplus of $600

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[1] The devaluation became effective formally following action by the Congress on Sept. 21, 1973 (Public Law 93-110). See exhibits 36 and 54.

million was recorded for the third calendar quarter. The trade surplus increased to well over $1 billion in the fourth quarter of 1973.

In addition to the improving trade balance, the dollar, after an initial decline due to the Middle East war, was temporarily buoyed by the belief that the United States would be injured less than others by the oil embargo and petroleum price increases. While it is true that the United States relies less in percentage terms on imported petroleum, in absolute terms it is the world's largest importer. As the problem became more one of price than supply, this source of strength for the dollar tended to reverse itself. On the other hand, it became obvious that the rise in the price of oil, and the fact that most of the payments for oil are made in dollars, would substantially increase the demand for dollars. Some of the major foreign countries attempted to meet this increased demand through borrowings in the Eurocapital market as well as in the United States.

After the lifting of controls on capital outflows from the United States in January 1974, U.S. banks sharply expanded their loans to foreigners. Some of these loans went directly to oil-importing countries, and some to intermediaries in the Eurocapital market. The major part of these dollar funds paid to oil-exporting countries was invested in dollar assets. To some extent these investments were made directly in the United States, to some extent they took the form of loans to other countries and international agencies; but the larger part presumably was deposited in accounts in banks operating in the Eurocurrency market.

In mid-January 1974 the dollar reached its highest point since the devaluation of the dollar in February 1973. However, the dollar began to decline as the energy problem threatened to provoke a more pronounced deterioration in the U.S. trade balance than had been originally expected, while Germany continued to show an exceptionally large trade surplus. Indeed the U.S. surplus began declining in February and had shifted to a substantial deficit by May. Short-term interest rates also had declined in the first 2 months of 1974.

Under these conditions, the Federal Reserve renewed its intervention in late February to prevent the decline in the dollar from generating speculative pressures and disorderly trading. During February, March, and April, the Federal Reserve sold some $428 million in foreign currencies—mainly DM financed by swap drawings.

The decline in the dollar stopped in mid-May and was subsequently reversed as interest rates in the United States had risen, and an improvement in the U.S. trade position occurred in April. In this situation the Federal Reserve was able to purchase $182 million worth of DM for swap repayment.

Exchange markets were also influenced by the difficulties of a few individual banks in several countries, resulting primarily from foreign exchange losses. The closure of the Herstatt Bank by German authorities in June 1974 was particularly unsettling to the market since some settlements between banks had not been completed, and other banks were not totally reimbursed for deliveries they had themselves made on the day of the closure. This development hindered exchange trading at the end of the fiscal year. To the extent that these difficulties demonstrated the risks in speculation, they may have had some longer range effects.

The trade-weighted average depreciation of the dollar, while less volatile by its nature than the rate of the dollar in terms of certain individual currencies, moved within a range of nearly 10 percent during the year. However, during the last quarter of the fiscal year the dollar fluctuated more narrowly, within about 2 percent of the level prevailing immediately after the February 1973 realignment.

In the private gold market, the price fell from about $125 per ounce in early July 1973 to about $90 in November. Thereafter, following the oil embargo, it rose rapidly, and reached nearly $180 per ounce at the end of March 1974. From April to June the movement was downward to $145 per ounce by the end of June 1974.

International monetary reform

The major economic and financial developments of 1973–74 represented an abrupt change in the framework surrounding the negotiations on reform of the international monetary system. About midway during the period under review, the focus of the negotiations shifted to measures of immediate relevance to the current situation, with less emphasis on early agreement on comprehensive, long-term reforms; and primary attention was given the urgent need, in light of major balance of payments disruptions arising from increases in the price of oil, for countries to avoid recourse to competitive or restrictive actions that would simply shift their balance of payments problems to other countries in equally difficult situations.

At the end of the fiscal year, the Committee of Twenty, established in 1972 to conduct the reform negotiations, agreed on a program of immediate steps and transmitted to the Board of Governors of the International Monetary Fund a report on their deliberations. This report included an outline of longer term reforms that described the outcome of the Committee's discussions on reform and indicated the general direction in which the Committee believed the system could evolve in the future. This section briefly describes the course of the negotiations during the year, the agreed program of immediate action, and the general principles underlying the longer term reform outline.

During the early months of the period under review, the Committee of Twenty made further substantial progress in defining the general shape of a reformed international monetary system. While a number of important issues remained to be agreed, the Committee decided to publish a "First Outline of Reform" on the occasion of the annual meeting of the International Monetary Fund in Nairobi, Kenya, in September 1973, presenting the issues on which general agreement had been reached and describing those which required further consideration and negotiation.

In view of the progress made by the time of the Nairobi meeting, the Committee announced a target date of July 31, 1974, for completion of the negotiations, with a view to full agreement on a comprehensive reform package by that date and needed action by IMF Governors by the time of the next annual meeting of the Fund, scheduled for the fall of 1974. To facilitate agreement within this period, technical groups were established under the guidance of the C–20 Deputies to examine the details and technical aspects of alternative arrangements relating to four key issues in the negotiations: Adjustment, intervention and settlement, global liquidity and consolidation, and the transfer of resources to developing countries.

After the Nairobi meeting, the international economy was hit by the oil embargo and the quadrupling of the price of oil. These major developments raised the prospect of large and abrupt shifts in the world balance of payments structure and posed critical uncertainties for individual countries about the future prospects for their own balance of payments positions. Meeting in Rome in January 1974, the Committee of Twenty reviewed the large increase in the price of oil and the implications for the world economy. The Committee recognized that the current account surpluses of the oil-producing countries would be very greatly increased and that many other countries would have to face large current account deficits. The Committee agreed that countries in managing their international payments must not adopt policies that would merely aggravate the problems of other countries, and stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments.

With respect to the reform negotiations, the Committee agreed that in light of these developments in the world economy, priority should be given to certain important aspects of reform, with a view to early implementation, while other aspects could be agreed on the understanding that their operational provisions would be developed and implemented at a later stage. The Committee undertook to complete its work, following meetings of the Committee's Deputies in March and May, at a meeting in Washington on June 12–13, 1974.[1]

In accordance with this work program, the Committee, on June 13, announced a program of immediate action [2] and submitted to the IMF Board of Governors a report on the negotiations transmitting an Outline of Reform and several Annexes discussing technical features of certain issues remaining unresolved in the Outline.[3] This set of documents both established a basic framework for the future evolution of the monetary system and implemented a series of measures as a first stage of that evolution. The immediate action program is described below.

Interim Committee of the IMF Board of Governors.—The Committee of Twenty had agreed in Rome that there should be established, between the full Board of Governors and the Executive Directors, a permanent and representative Council of Governors of the IMF which would have the necessary decisionmaking powers to supervise the management and adaptation of the monetary system, to oversee the continuing operation of the adjustment process, and to deal with sudden disturbances which might threaten the system. Pending establishment of this Council, which will require amendment of the IMF Articles of Agreement, the Committee of Twenty recommended the creation of an Interim Committee which would have advisory powers in the same areas of responsibility as is envisaged for the new Council. Pursuant to a recommendation of the Committee of Twenty in June, the IMF Executive Directors approved a draft resolution to establish the Committee, which is expected to be approved by the full Board of Governors at its annual meeting beginning in September 1974.[4] It is anticipated that the new Committee will hold its first meeting during the week of the International Monetary Fund annual meetings.

The United States strongly supported the proposals to establish the Council and the Interim Committee. The new body will meet regularly three or four times a year as required and will be composed of Ministers, Governors, or others of comparable rank. Thus it will provide a continuing forum, under the auspices of the Fund, for senior policy officials to discuss and decide critical issues in the operations and evolution of the monetary system. To provide maximum effectiveness, while remaining broadly representative, participation in the Committee by the Fund members will be through representatives of the country groupings which make up the IMF Executive Board. The availability of such a forum is particularly welcome in view of the less than comprehensive nature of the agreed reforms and the need for a high

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[1] See exhibit 58.
[2] See exhibit 70.
[3] See exhibit 71.
[4] See exhibit 72.

level of international cooperation in dealing with the exceptional problems of the current situation.

Establishment of a development committee.—In response to an initiative on the part of the developing countries, the Committee of Twenty recommended the establishment of a committee to carry forward study of the broad question of the transfer of real resources to developing countries. It also recommended, at the suggestion of the United States, that this committee give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation. From the outset, the United States viewed and supported the proposal for a development committee as a means of providing a needed focal point for prompt and effective consideration of issues in the development area of interest to both developed and developing countries.

While discussions on the organization and procedures of the development committee had not advanced as far as in the cases of the Interim Committee and IMF Governors Council, it was anticipated that the development committee would be established at the time of the IMF/IBRD annual meetings in September/October 1974, with a broad mandate to undertake, on a continuing basis, consideration of development issues by senior governmental officials.

Adjustment procedures.—The Fund, in particular the new Interim Committee, will begin to implement improved procedures for surveillance and consultation of the adjustment process, on the lines of the procedures set out in paragraphs 5–10 of the Outline of Reform. The Fund will begin some experimental use of objective indicators, including reserve indicators, in the assessment of adjustment need but will not for the time being use such indicators to establish the application of pressures for adjustment as had been proposed originally by the United States in the context of its comprehensive proposals for reform. The procedures to be implemented by the Fund are aimed at providing a means of ensuring that adjustment responsibilities are fairly distributed and carried out effectively.

Guidelines for floating exchange rates.—The Committee of Twenty approved and recommended IMF adoption of guidelines for floating exchange rates. The development of such guidelines was proposed by the United States as a subject requiring urgent attention in the present period of widespread floating and was recognized by the Committee of Twenty in Rome as an aspect of reform deserving its priority attention.

The guidelines approved by the Committee provide a code of behavior designed to help insure the mutual consistency of countries' exchange rate policies and to provide a basis for dialogue between member countries and the Fund with a view to avoiding disruptive market conditions during a period of widespread floating and to providing a benchmark against which to measure the appropriateness of governmental policies affecting the exchange markets.[1]

Establishment of an "oil facility" in the Fund.[2]—The IMF Managing Director proposed in Rome that work be undertaken to establish a temporary facility in the IMF to help meet countries' balance of payments financing needs arising from the abrupt increase in oil prices. As approved by the Committee in June, the new facility is designed basically as a "safety net" to provide supplemental financing for those countries that can afford its near-commercial terms but cannot acquire in adequate amounts needed financing from other sources. The facility will rely on borrowings from member countries in relatively strong balance of payments positions—presumably largely from the oil-producing countries. At the close of the fiscal year, several countries had made preliminary commitments to lend a total in excess of $3 billion to the facility. The Fund will relend these borrowed funds to member countries, with access to the facility determined in relation to the increase in their oil import costs and to their reserve holdings, subject to an overall limit based on IMF quotas. The interest rate on loans by the facility (based on the rate on loans to the facility already arranged) will be 6⅞–7⅛ percent, with repayments made in 16 equal quarterly installments during the fourth through seventh years after loans are made. These terms are based on the cost and maturity of the funds being made available to the facility and thus cannot adequately meet the needs of the developing countries most seriously affected by the oil price increases, which require highly concessionary or grant financing to meet their increased oil deficits. The facility can, however, provide a useful source of supplementary financing and reduce potential strains in private capital markets.

Trade declaration.—In line with the Committee of Twenty's concerns expressed at its Rome meeting about the need for countries to avoid resort to restrictive measures in the current situation, the Committee invited IMF members to subscribe for a period of 2 years to a voluntary declaration on trade or current account restrictions. In subscribing to the declaration, a country pledges that it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a finding by the Fund that there is balance of payments justification for trade or other current account measures.

The declaration is to become effective among subscribing members when IMF members representing 65 percent of the total voting power

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[1] See exhibit 75.
[2] See exhibit 73.

in the IMF have accepted it. The declaration can help create the needed restraint to an escalation of restrictions which would undermine the successful reduction in trade barriers that has been a hallmark of the postwar international economic system and has contributed significantly to higher living standards for all nations.

Interim valuation and interest on the special drawing right.[1]—The Committee of Twenty recommended that, in order to improve the usefulness of the special drawing right (SDR) during the current situation of widespread floating of exchange rates, it should be valued in terms of a "basket" of currencies for an interim period. This new technique was adopted by the IMF on July 1, 1974, and provides, in effect, that the value of the SDR will fluctuate in terms of any individual currency in response to fluctuations of market exchange rates among the currencies in the basket. The United States supported adoption of the new interim technique as desirable and equitable in the present period of widespread floating. However, it was generally agreed that adoption of this interim technique of valuation should not prejudice future decisions on SDR valuation for the longer term. The question is to be reviewed at the end of 2 years.

At the same time, the Fund decided to raise the interest rate on the SDR (and on remuneration paid by the IMF to creditors) in recognition of the major increase in market interest rates that had occurred since the rate was originally set at 1½ percent, and to make the SDR interest rate more responsive to changes in market interest rates in the future. As of July 1, 1974, the SDR interest rate was set at 5 percent per annum. After an initial period of 6 months, the SDR interest rate will be adjusted periodically in relation to a weighted average of short-term interest rates in the United States, the United Kingdom, Germany, France, and Japan, according to the following schedule. If the weighted average market interest rate is below 9 percent, the SDR interest rate will be reduced below 5 percent by three-fifths of the difference between 9 percent and the weighted average. If the weighted average market interest rate is above 11 percent, the SDR interest rate will be increased above 5 percent by three-fifths of the difference between the weighted average and 11 percent. If the weighted average market interest rate remains in the range of 9 to 11 percent, the interest rate of the SDR will remain at 5 percent. The IMF Executive Directors can decide on different interest rates for the SDR from those provided by this formula, by a three-fourths majority vote.

An extended Fund facility.—The Committee of Twenty recommended that the Executive Directors proceed to an early formulation and adoption of an extended facility in the Fund, under which devel-

[1] See exhibit 74.

oping countries would be eligible for somewhat greater access to the Fund and could receive longer term balance of payments financing than is available under the Fund's regular lending policies. This facility would be designed to provide needed support for major programs of reform of economic structure which could give rise to persistent balance of payments difficulties; and would help to give countries needed assurance that balance of payments support would be available in connection with such programs. It was expected that the Fund would decide to implement such a facility shortly after the close of the fiscal year.

Amendments to the IMF Articles of Agreement.—The Committee also requested the IMF Executive Directors to prepare a number of draft amendments of the Articles of Agreement for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular, draft amendments were requested on the following proposals:

(a) To establish the Council;

(b) To enable the Fund to legalize the position of countries with floating rates during the interim period;

(c) To give permanent force to the voluntary pledge concerning trade or other current account measures for balance of payments purposes;

(d) To authorize the Fund to establish, as and when agreed, a "substitution account" to facilitate any future consolidation or change in composition in the monetary system's reserve assets;

(e) To amend the present provisions concerning gold;

(f) In parallel with a reconsideration of the basic principle of a link between development assistance and SDR allocation, to authorize the Fund to implement any such link if there should be any agreement in the future to establish such a link; and

(g) To introduce improvements in the general account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at the latest by the date fixed for completion of the current general review of Fund quotas—February 1975.

The Committee also requested the Fund to begin to implement improved procedures for the management of global liquidity. Among the procedures recommended was one under which the Fund would periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 of the Outline of Reform and, if they were judged to show an excessive increase, would consider with the countries concerned what steps might be taken to secure an orderly reduction. In addition, the Committee recommended further study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

In related developments, the two-tier gold arrangements established by the Washington agreement of March 1968 were abolished in November 1973, thus permitting the signatories to sell monetary gold in the private market, if they wished to do so. Also, the Ministers of the Group of Ten, meeting just prior to the Committee of Twenty meeting in June, agreed in principle that gold could be used as collateral for international borrowings.

The immediate action program outlined above was agreed against a basic framework of principles of long-term monetary reform. The longer term Outline of Reform envisages a more effective, symmetrical, and smoothly operating adjustment process than existed in the past. The Fund would play a larger role, based in part on agreed reserve indicators, in the surveillance and assessment of need for balance of payments adjustment and in the application of international pressures for adjustment. The Fund would be strengthened to fulfill this enhanced role by the creation of a small decisionmaking committee of senior government officials—the Council. The system would contain strong presumptions against the use of restrictions or controls on international transactions designed to maintain inappropriate exchange rates or, more generally, to avoid appropriate adjustment action.

The exchange rate regime would be more flexible than under the Bretton Woods system. While providing for par values and symmetrical convertibility obligations as the "center of gravity" of the system, provision would be made for wider margins about established par values or central rates, and for the floating of currencies in conformance with agreed guidelines. The Fund would exercise closer review of global liquidity in the framework of reformed arrangements for adjustment and convertibility, with the objectives that the SDR would become the central reserve asset of the system and that the role of gold and reserve currencies would be reduced. The system would be designed to provide the environment needed to stimulate the flow of real resources to developing countries, and would contain forums appropriate for consideration of the broad complex of issues in the development area.

The United States considers that these basic principles of reform provide an appropriate framework for the future cooperative evolution of the system. The immediate steps agreed by the Committee of Twenty are fully consistent with that framework and, in effect, con-

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stitute the essential first step in the evolutionary process of monetary reform.

International investment and capital flows

Fiscal 1974 was an active one in the international investment area. There were a number of decisions and events that had a major impact on world capital markets and the flow of funds within these markets. The administration's move to eliminate its program of capital controls and the impact of increased oil prices and earnings of oil-producing countries on international financial markets were two of the many significant developments that affected the magnitude and nature of international capital flows.

Removal of the U.S. program of capital controls.—The most important U.S. policy move during fiscal 1974 regarding capital flows was to reduce and subsequently to terminate the U.S. capital outflow restraint programs. These consisted of the interest equalization tax administered by the Department of the Treasury, the foreign direct investment program administered by the Department of Commerce, and the voluntary foreign credit restraint guidelines of the Federal Reserve Board setting foreign lending and investment ceilings for banks and other financial institutions.

In February 1973, Secretary Shultz had announced that the United States intended to phase out the capital control programs and to terminate these measures at the latest by December 31, 1974. The first step in phasing out the capital restraint programs was taken November 27, 1973, when the Commerce Department announced that "the foreign direct investment regulations were being relaxed to ease year-end compliance problems." [1] Soon thereafter, on December 26, 1973, the Treasury announced, in coordination with the Commerce Department and Federal Reserve Board, a substantial liberalization of the IET, FDIP, and VFCR controls effective as of the first of the new year.[2]

As a consequence of further improvements in the U.S. balance of payments position, the stronger position of the dollar in exchange markets, and the desirability of avoiding official restrictions on capital flows in light of the changed circumstances in the balance of payments of many countries resulting from the higher oil prices, the U.S. programs of capital controls were effectively terminated as of January 29, 1974.[3] Certain reporting requirements were, however, retained for the time being to assist in monitoring balance of payments flows.

[1] The foreign direct investment program was amended as follows: (1) The minimum worldwide allowable investment available to small investors was raised from $6 million to $10 million; (2) the amount that could be reinvested from earnings of foreign affiliates was increased from 40 percent to 60 percent of the greater of 1972 or 1973 foreign affiliate earnings.

[2] See exhibit 56.

[3] See exhibit 59.

Former Secretary Shultz, in recently commenting on his many accomplishments as Secretary of the Treasury, said that he received more satisfaction from the dismantling of the capital control programs than from any other single official action. The elimination of these controls reaffirmed the administration's support for integration and greater efficiency in the world capital markets.

Ending of the interest equalization tax.—The interest equalization tax (IET) was the element of the capital control programs specifically administered by the Treasury Department. The IET was instituted by law effective July 1963, for an initial period of 2 years, to help restrain the outflow of capital from the United States into portfolio investments abroad. This statute gave the President authority to set the rate of the IET between zero and the equivalent of 1½ percent per annum. (This implied a ceiling rate on equity purchases of 22½ percent.) The law was subsequently extended on several occasions and adjustments in the rate of the tax were made by Executive order. The last extension of the IET legislation was in April 1973 when the Interest Equalization Extension Act of 1973 renewed the IET authority until June 30, 1974. The act required the Secretary of the Treasury to study the effect on international monetary stability of the IET exemption on new issues of Canadian stock or debt obligations and to submit a report to Congress, no later than September 30, 1973. This was done by a letter of September 28, 1973, from Acting Secretary Simon to the Congress.[1]

Executive Order 11754, signed by the President on December 26, 1973, reduced the rate of the IET effective January 1, 1974, from 11.25 percent to 3.75 percent on the purchase of foreign stocks by U.S. citizens, and from a rate of approximately 0.75 percent per annum to a rate of approximately 0.25 percent per annum on the purchase of foreign debt obligations. Pursuant to Executive Order 11766, dated January 29, 1974, the effective rate of the IET was reduced to zero as of that date. The IET legislation continued in force until it expired on June 30, 1974.

Linkages between the U.S. and international capital and securities markets.—The termination of the U.S. capital control programs was welcomed as a contribution to the liberalization of capital flows at a time when the balances of payments of many countries were in danger of sharp deterioration because of the higher cost of imported oil. This U.S. action and the easing of capital controls in several other countries in early 1974 have facilitated the movement of capital to the points of pressure in the international financial system.

There is no convincing evidence that the termination of the capital outflow restraint programs may have contributed to an increase in

[1] See exhibit 51.

average U.S. domestic interest rates. For the United States, which has a foreign sector that is relatively small compared with the domestic economy, the effect of balance of payments flows on the aggregate demand and supply of funds tends not to be large.

The Eurocurrency market continued to grow at a rapid pace. According to estimates in the 1974 annual report of the Bank for International Settlements, the net size of the Eurocurrency market (including principal centers outside of Europe) grew from about $105 billion at the end of 1972 to some $155 billion at the end of 1973 and to roughly $170 billion on March 31, 1974.

In view of the newly increased integration between the U.S. and the international capital markets, particularly the Eurodollar market, there is renewed official interest in reviewing the effectiveness of the U.S. financial markets. Several major issues related to the efficiency of the international competitive position of U.S. capital markets are currently being discussed. These include the following:

(a) Interest ceilings (Regulation Q) tend to reduce the ability of U.S. financial institutions to compete with Eurodollar and other foreign banks for funds. The elimination, in 1973, of the ceiling on U.S. time deposits of $100,000, or more, importantly reduced this regulatory difference. The administration's legislative proposals to the Congress made on August 3, 1973, for "Recommendations for Change in the U.S. Financial System," anticipates the gradual elimination of all interest rate ceilings. Such a measure would make U.S. institutions more competitive in the international money markets.[1]

(b) Another issue currently receiving attention is that of foreign bank activity in the United States. Foreign banks operating in the United States have some advantages over domestic banks, for example, because they can participate in interstate branching and engage in nonbanking activities prohibited to U.S. banks. Bills have been introduced in the Congress to restrict the operation of foreign banks. The administration is reviewing the various policy issues involved, in a spirit which includes concern for the public interest in promoting competition and good service in the banking system and for upholding the general principle of nondiscrimination as between foreign-owned and domestically owned banks operating in the United States (national treatment).

(c) The question of foreign participation in the U.S. securities industry and access to U.S. stock exchanges is being examined. An important problem in this context results from the institutional

[1] It may be noted that additional regulatory differences between the U.S. and the Eurocurrency markets consist of U.S. reserve requirements on deposits (Regulation D) and of reserve requirements related to transactions between U.S. banks and banks based abroad (Regulation M).

linkage which frequently exists abroad between banking and securities operations, which contrasts with our practice under the Glass-Steagall Act of segregating commercial banking from brokerage and investment banking activities.[1] The Securities and Exchange Commission has asked for comments from the public on these issues and is now in the process of reviewing the responses.

International direct investment issues.—The United States continues to participate actively in the studies of international investment and multinational corporations being conducted by the Organization for Economic Cooperation and Development (OECD) as a complement to the monetary and trade negotiations. The OECD has focused its efforts on three main areas: (1) National treatment for foreign investors; (2) government policies regarding the use of investment incentives and disincentives; and (3) issues pertaining to multinational corporations. The concept of national treatment affirms that foreign investors and domestic investors should be accorded equal treatment. The current effort is designed to supplement the OECD's Code for the Liberalization of Capital Movements by developing possible guidelines and consultation procedures dealing with the treatment of already established foreign-owned enterprises.

The OECD is also considering problems caused by governmental investment policies which seriously distort international trade and investment patterns. Work is proceeding designed to define some principles and establish consultation procedures for discussion and resolution of differences among OECD members that may arise from conflicts in national investment policies.

A related set of studies has been requested by the OECD Council on a number of aspects relating to the operations of multinational corporations. These studies have the aim of identifying the extent to which there are real issues peculiar to multinational corporations and distinguishable from issues related to international investment as a whole, and to outline possible approaches to handling any such issues. The work program which has been delegated to various OECD committees and working groups called for the submission of initial reports by July 31, 1974.

The OECD Ministers at their May 1974 meeting welcomed the intensification of the work on the issues related to international investment and multinational corporations.

Foreign investment in the United States.—Net new inflows of capital for foreign direct investment in the United States were $2.5 billion in 1973, compared with $0.4 billion in 1972, and an average $0.2 billion

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[1] As a contribution to the review of these issues, among others, the Department of the Treasury sponsored a February 7, 1974, study by Professor James H. Lorie of the University of Chicago, titled "Public Policy for American Capital Markets." See exhibit 28.

per year during the 1960's. Inflows of capital for portfolio investment in the United States (other than Treasury issues) amounted to $4.5 billion in 1972 and $4.1 billion in 1973. The average for the preceding 5 years (1967–71) was $2.6 billion annually. This recent increase in foreign investment activity in the United States has stimulated congressional and public interest in the nature and extent of foreign direct and portfolio investments in the United States. The Senate and House have introduced legislation that would authorize the Secretaries of Treasury and Commerce to conduct studies of foreign direct and portfolio investment in the United States.

The Treasury has testified in support of these studies.[1] The last partial benchmark survey on foreign portfolio investment in the United States was conducted in 1949, and the last complete benchmark census on foreign portfolio investment in the United States was taken in 1941. The administration has long been aware of the data inadequacies on foreign investment in the United States, and as a consequence both the Treasury and Commerce Departments are planning benchmark surveys. The Treasury Department will conduct the survey on foreign portfolio investment. The pending legislation before Congress would require both Secretaries to submit interim reports to the Congress 12 months after enactment of the legislation, and a final report within 18 months of enactment.

Organization for Economic Cooperation and Development

The highlight of the annual Ministerial meeting of the OECD held in Paris May 29–30, 1974, was the adoption of a declaration of intent, or pledge, on the part of member countries to avoid introduction of new measures restricting exports or imports or providing artificial subsidies to exports aimed at offsetting the effects of higher energy prices. Details and related actions taken in the International Monetary Fund are described in sections in this report on "trade policy" and "international financial affairs." Against a background of continued accelerated rates of worldwide price increases, the Ministers also reaffirmed their resolve to pursue anti-inflationary policies.[2]

The trade policy declaration was prepared by the Executive Committee of OECD meeting in special session as one element of the cooperative reaction of the international community to the unprecedented situation caused by the sharp increases in oil prices announced in the latter part of 1973. That Committee also continued its work on issues related to international investment, as part of efforts to reform the international economic system. The Committee is attempting to develop proposals for guidelines and consultation procedures on invest-

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[1] See exhibit 65.
[2] See exhibit 68.

ment as well as undertaking a series of studies on multinational enterprises.

Much of the attention of the economic policy branch of the OECD focused in fiscal 1974 on the problem of inflation and on the implications, both for national economies and balances of payments, of the increase in oil prices.

The Secretariat of OECD produced much of the early work estimating the impact of the announced increases, pointing in particular to the need for cooperation by the industrial countries in the face of the implied prospective sharp swing in their combined current account positions from customary surpluses to a large combined deficit. The Economic Policy Committee's Working Party 3, to which the U.S. delegation is led by the Treasury's Under Secretary for Monetary Affairs, devoted much of its time to consideration of appropriate adjustment policies in the face of this prospective swing and to the problems of financing the implied deficits.

The Treasury continued to participate actively in the work of a number of other activities of the OECD. These include the Economic Policy Committee and its other working parties (on Long-Term Growth, on Costs and Prices, and on Short-Term Economic Forecasting); the Trade Committee and its subgroups on Export Credit and Credit Guarantees and on Government Procurement; the Development Assistance Committee; the Committee on Fiscal Affairs; the Committee on Financial Markets; and the Committee for Invisible Transactions.

International Monetary Fund operations

IMF financial operations were little changed between fiscal years 1973 and 1974. With the continuation of widespread exchange rate floating, combined with strong reserve positions on the part of many countries, there was again relatively little need for recourse to IMF credit during the year.

Purchases of currency (drawings) by IMF member countries totaled the equivalent of $1.4 billion, roughly equal to total drawings during the previous fiscal year. India was the largest single user of Fund credit, with drawings totaling the equivalent of $450.2 million, about one-third of total drawings during the year. Principal currencies drawn were the German mark (in the equivalent of $610.2 million); the U.S. dollar ($297.2 million); the Japanese yen ($91.7 million); and the French franc ($80.1 million).

Dollars were eligible to be used in drawings for the first time since 1971, as a result of the strengthened U.S. balance of payments position. Special drawing rights were drawn in the amount of $68.3 million equivalent.

Currency repurchases (repayment of previous drawings) totaled the equivalent of $875.3 million. Nearly 40 percent of total repurchases, the equivalent of $347.9 million, was in German marks. The remainder of the repurchases were concentrated in the currencies of Canada, Japan, and other European countries, and in SDR's. IMF holdings of U.S. dollars exceeded 75 percent of the U.S. quota in the IMF throughout the fiscal year and, therefore, the dollar was not eligible for use in repurchases.

As of June 30, 1974, cumulative drawings from the beginning of IMF operations amounted to the equivalent of $32.6 billion, of which $9.8 billion was in U.S. dollars; cumulative repurchases amounted to the equivalent of $20.5 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, 1974, amounts available under the GAB totaled the equivalent of $6.8 billion.

The U.S. reserve position in the IMF increased from $522 million to $1,006 million during the fiscal year, primarily as a result of repurchases by the United States (in the amount of $132.8 million) and purchases of dollars by other countries ($297.2 million).

The world economy and the U.S. balance of payments

International transactions of the United States as well as of most of the other countries during the year July 1973 through June 1974 were strongly influenced by economic and political developments which substantially changed the patterns of international transactions, and the financial relationships among the various countries and regions. Some of these changes, as well as the widespread shift from fixed to floating exchange rates, are also raising questions whether the standards which previously have been used to determine and measure improvements or deteriorations in the balance of payments continue to be applicable.

At the start of the period which is reviewed here, business activity in the United States as well as in the major foreign countries was rapidly expanding. Demands reached the limits of the available production capacities for some of the basic industrial materials, and in many countries competition for workers, particularly skilled workers, substantially increased.

The coincidence of the cyclical upswing in major countries was greater than in previous periods, and not only created strong upward pressures on prices but also changed to some extent the international flow of goods, services, and capital.

Superimposed on these developments were shortages relative to the prevailing demand in agricultural commodities which accentuated the inflationary pressures that had affected the industrial sectors of the economies.

These developments, and the decline in the value of the dollar during the first half of 1973 and probably also the delayed effects of the devaluation in 1971, had a favorable effect on U.S. trade and the balance of payments in general.

In the July–September quarter of 1973 the trade balance improved from the preceding quarter by nearly $1 billion, and for the first time in over 2 years moved into a surplus. A major factor contributing to the improvement was the $630 million rise of the balance in the trade in foods, feeds, and beverages. The balance on industrial materials other than fuels and lubricants improved by about $330 million and moved into a surplus. In the preceding 10 years, a surplus in this balance occurred only in the first half of 1970 and 1964.

In comparison with these improvements, trade in finished capital and consumer goods responded more slowly to the favorable developments affecting our trade. The balance on these goods improved only about $240 million, of which about $70 million was in trade in automotive products with Canada, most of which is conducted under the United States-Canadian Automotive Trade Agreement. To a minor extent these improvements were offset by a $230 million increase in our deficit in fuels and lubricants. (This increase did not yet reflect the large price increases for oil which started in October 1973.)

Net incomes on services transactions also increased. Major factors in this improvement were higher net receipts on fees and royalties, a considerable improvement in the balance of travel receipts and expenditures, and in military transactions. Incomes on U.S. investments abroad also rose but so did U.S. payments of income on foreign investments held in the United States, largely because of rising interest rates paid on the large amounts of foreign investments held in short-term U.S. obligations.

The more than $1½ billion improvement in the balance on current account transactions, excluding Government grants, was, of course, matched by an opposite change in capital transactions. That change approximately equaled (after seasonal adjustments) the sale of liquid and other assets held in the United States by foreign official agencies mainly to support their currencies in the foreign exchange markets. The overall balance on recorded private capital transactions improved about $1.7 billion, but this was largely offset by an adverse shift in unrecorded transactions and some rise in net outflows through Government grant and capital transactions.

Among private capital transactions, most significant were large inflows of long-term capital, including a more than $500 million payment by a major oil-producing country for a share in the equity of a U.S. corporation operating in its territory. In addition, U.S. banks substantially reduced their lending to foreigners. These changes, which had the effect of improving the balance of payments, were to a large extent offset by a substantial decline in the inflow of foreign capital for investment in liquid assets.

The value of the dollar in foreign exchange markets started to rise in the July–September 1973 quarter, indicating that the demand for dollars had expanded somewhat more than the supply. This was a reversal of the developments during the first half of 1973 when exchange market developments resulted in a 7.3-percent devaluation relative to the currencies of other OECD countries in February, and further decline in value by about 3.5 percent through the end of June.

The underlying economic trends and associated financial developments were substantially changed by the outbreak of the Middle East war in October, the imposition of the embargo on oil shipments to the United States and other countries, a curtailment of oil production, and a substantial rise in prices of oil and in taxes collected from oil-producing companies by all of the oil-producing countries. The increase in taxes and prices in the middle of October was followed by another sharp increase by the end of December, and smaller upward adjustments since then. In addition, the governments in several of the major oil-producing countries claimed ownership of major shares of the output of the companies operating in their territories. Although a large part of the government-owned oil was sold back to the operating companies, the prices charged by these governments substantially exceeded the current tax rates and thus added to the costs of the operating companies.

The reductions in oil output had the effect of reducing industrial production in the United States and in several major foreign countries. Outputs started to decline late in 1973 and reached the low points in the first quarter of 1974. Unlike earlier periods of declining output which were caused by weaknesses in demand, pressures of demand relative to available supplies increased for major industrial materials whose production was affected by the availability of fuels. Price increases for these commodities as well as for fuels accelerated. The rising prices, in turn, stimulated demands for higher compensation for labor. The rise in prices also stimulated new investments.

The sharp increase in prices—although to a different extent—was felt in all countries and created, or was feared to create, economic dislocations and social upheavals. Consequently, the governments of some of the major countries, including the United States, recognized the increased urgency to dampen the inflationary pressures. The improvement in business activity from the low point reached early in the year was, therefore, relatively slow. To a large extent, the anti-inflationary measures consisted of restrictive monetary policies, which not only affected business activity within the countries involved, but also international capital flows.

International capital flows were also affected by large borrowing by foreign governments, or organizations under their control, to finance actual or anticipated increases in their payments for oil and in some cases deficits in their balances of payments arising from other transactions. On the supply side of the international capital markets, in search of investment opportunities, were the funds accruing to the oil-exporting countries, to the extent that they exceeded the amounts used by these countries to pay for imports and for grants to other countries. Various problems have been created by the difficulties of matching the flow of capital from the oil-exporting countries to those countries which require them to meet their foreign expenditures, but at least up to June 1974, most countries had not experienced major disturbances in their economies and financial operations.

The merchandise trade balance of the United States continued to improve in the October–December quarter, and reached an annual rate of nearly $5 billion. In the second half of fiscal 1974 it declined, however, and in the fourth quarter moved again into a deficit. Trade in fuels and lubricants was the major factor in this change. Net imports of fuels and lubricants rose from $1.78 billion in the July–September quarter 1973 to $2.36 billion in the December quarter; they nearly doubled to $4.54 billion in the March quarter, and rose further, to about $6.28 billion, in the June quarter. At that time, the imports fully reflected the price increases at the end of 1973, and at the latest by the middle of the quarter, the lifting of the embargoes which took place at the end of March.

In the December quarter, the $580 million rise in net imports in fuels and lubricants was about offset by the accelerating rise in the surplus on the trade in finished manufactures, particularly capital goods. While net exports of finished manufactures continued to expand in the second half of fiscal 1974, the rate of expansion declined somewhat.

The increase in net exports of foods, feeds, and beverages, which was the main factor in the improvement of the overall trade balance in the September quarter of 1973 (and also the January–June period of 1973), decelerated to $200 million in the December quarter 1973 and to $100 million in the March quarter of 1974. In the June quarter net exports of these commodities started to decline, partly because of a faster drop in the quantity of exports than in the quantity of imports and partly because of a faster rise in the prices of imports than in the prices of exports.

The balance of trade in industrial materials other than fuels and lubricants followed a course similar to that in foods, feeds, and beverages, except that the peak in the balance appeared to have been reached around March or April. The major reason for the reversal in the following months appears to have been the price increases for such goods in the United States following the lifting of price controls, and thus a lessening in the incentives to favor sales abroad over sales in domestic markets which had been subject to price limitations.

Although the trade in foods, feeds, and beverages, and in industrial materials other than fuels and lubricants weakened somewhat, and the growth in the favorable balance on finished manufactures slowed down, the balance on trade in these commodity groups in the June quarter was considerably more favorable than a year earlier, and this improvement compensated for a large part of the deterioration in the balance on fuels and lubricants.

The balance on current account transactions, other than merchandise trade and Government grants, continued to improve moderately in the December quarter and by a major amount in the March quarter. In this period the balance was far higher than in any other period for which data are available, but it was at a peak from which it started to decline in the June quarter.

The changes in these transactions were closely associated with the Middle East war, and the various actions of oil-exporting countries with respect to volume and prices of crude oil production, and the ownership of oil-producing facilities.

The improvement in the December quarter balance resulted mainly from an increase in deliveries of military equipment to Israel, but such deliveries fell off rapidly in the following quarter. They are shown in the balance of payments as credit sales. During the June quarter the President determined, however, that funds previously appropriated should be used to release Israel from its contractual obligations. Consequently, the balance of payments for the June quarter show repayments of these claims offset by Government grants.

More significant was the impact of the developments related to oil. The curtailment of production and the increases by the oil-exporting countries of the "posted" prices which form the basis of their tax collections, also raised the incomes of the companies engaged in the production of crude oil. On the other hand, when governments of the oil-exporting countries increased their share of the assets or of the output of the oil companies operating in their territories, the income of these companies was reduced. Mainly as a result of these developments, net income on direct investments reported by U.S. corporations, which had risen gradually in the course of the calendar year 1973, moved up sharply in the January–March period but started to decline again in the following quarter.

Capital transactions presumably were also strongly influenced by the oil-related developments. Among the most significant developments was the rapid increase and the large volume of capital outflows through bank lending and other transactions reported by banks. After a sharp, but temporary drop in the first quarter of fiscal 1974, bank-reported capital outflows increased to over $2 billion in the December quarter 1973. In the March quarter, after controls on capital outflows had been terminated, net outflows reported by banks rose to $5.2 billion and to $7.3 billion in the June quarter. The large increase in the foreign demand for banking funds may have reflected the concern of several foreign governments to obtain directly or through banks, public enterprises and agencies, funds to meet the higher payments for oil, both for the current and for later periods. Some of the lending by U.S. banks was directly to foreign countries; some was to banks in the Eurocapital market which presumably acted as intermediaries for the ultimate borrowers.

In contrast, capital outflows through U.S. direct investments abroad were very small in the January–March quarter, but increased later. Outflows through purchases of foreign securities other than Canadian and World Bank issues also remained small.

Except for the amounts which were needed to pay for the current account balances (and allowing for the balance on Government grants and capital transactions), the outflow of capital from the United States had to be matched by an inflow of capital representing the increase in dollar assets held by foreign residents, including foreign official agencies.

To some extent the increase in dollar funds at the disposal of foreign residents was used for direct investment purposes, but most was invested in liquid assets in the United States. Foreign purchases of U.S. securities declined.

A considerable part of the increase of capital inflows for direct investment was in goods-producing industries, but a large portion was also for investments in service industries and banks. A major part of the capital inflows consisted, however, in acquisitions of controlling shares of the capital in enterprises having investments abroad. This includes the acquisition of assets in U.S. corporations producing crude oil abroad by the governments of the countries in which these corporations are operating. Presumably there were also capital inflows for the purchase of real estate, but data for such transactions are difficult to obtain, and they remain in the residual for unrecorded transactions (errors and omissions).

Foreign official organizations, foreign banks, and other foreign residents shared in the acquisition of liquid assets. In the first months of 1974 acquisitions by foreign official organizations included large amounts borrowed by them in anticipation of increased payments for oil. In later months of the January–June period they included mainly funds of oil-exporting countries.

Most of the excess of the receipts of the oil-exporting countries over their payments for goods and services, for grants to other countries, or for long-term investments was transferred to banks operating in the Eurocapital market. It may be assumed, therefore, that the acquisition by foreign banks of liquid assets in the United States represents to a large extent the reinvestment of funds coming from the oil-exporting countries.

The balance of payments figures suggest, therefore, that oil-related developments resulted in a strong increase in U.S. capital transactions, by supplying funds (largely through bank loans) to foreign countries which needed them to pay for their oil bills and by providing investment opportunities for these funds to the oil-exporting countries.

These functions were performed without major changes in the value of the dollar on the exchange markets, suggesting that demand for, and supply of, dollars were never far apart. The exchange rate of the dollar relative to the currencies of the other OECD countries advanced through January 1974, and fell back somewhat from then through March. From the end of March to the end of June the exchange rate varied only about one percentage point.

Treasury foreign exchange reporting system

The joint review by the Departments of the Treasury and Commerce of the adequacy of the established statistical systems for reporting capital movements in the balance of payments, initiated during the second half of fiscal 1973, was completed during fiscal 1974. The review had been undertaken, following the international monetary disturbances during February and March 1973, to determine whether the existing statistical systems were adequate in concept and functioning satisfactorily. Reporting business firms were asked to conduct a policy level review to ensure the completeness, consistency, and accuracy of their statistical reporting. The review detected some specific errors in reporting and some inadequacies of coverage, and resulted in substantial additions to the data base, but no significant conceptual problems in the statistical systems were uncovered.

*U.S. balance of payments, fiscal years 1973–74**

[In millions of dollars]

	Fiscal 1973	Fiscal 1974	Fiscal 1974 1st half	Fiscal 1974 2d half
Trade, balance of payments basis [1]	−4,681	83	1,788	−1,705
Exports	57,488	84,756	38,368	46,388
Imports	−62,169	−84,673	−36,580	−48,093
Travel	−2,250	−1,948	−1,022	−926
Receipts	2,991	3,543	1,685	1,858
Payments	−5,241	−5,491	−2,707	−2,784
Military	−3,343	−1,734	−605	−1,129
Receipts	1,335	2,894	1,566	1,328
Payments	−4,678	−4,628	−2,171	−2,457
Dividends, interest and branch profits	5,143	7,491	2,635	4,856
Receipts	12,075	19,873	7,482	12,391
Payments	−6,932	−12,382	−4,847	−7,535
Other services	2,538	3,374	1,664	1,710
Balance on goods and services	−2,593	7,266	4,460	2,806
Private remittances, Government pensions, and other transfers	−1,639	−1,980	−1,129	−851
U.S. Government economic grants	−2,032	−4,888	−932	−3,956
Balance on current account	−6,264	398	2,399	−2,001
U.S. Government capital, [2] net	−1,191	471	−1,260	1,731
U.S. direct investment abroad	−4,871	−4,263	−2,084	−2,179
Purchases and sales of foreign securities	57	−1,737	734	−1,003
U.S. long-term bank and nonbank claims	−1,680	−1,661	−504	−1,157
Total transactions in long-term U.S. capital invested abroad	−7,685	−7,190	−4,582	−2,608
Foreign direct investments in the United States	1,321	4,395	1,598	2,797
Foreign purchases of U.S. securities	4,694	2,927	1,843	1,084
Other foreign long-term investments in the United States	823	−222	4	−226
Total transactions in long-term foreign capital invested in the United States	6,838	7,100	3,445	3,655
Balance on long-term capital transactions	−847	−90	−1,137	1,047
Short-term loans to foreigners	−4,712	−12,075	−2,021	−10,054
Short-term foreign loans to the United States	173	1,488	865	623
Balance on nonliquid short-term capital transactions [3]	−4,539	−10,587	−1,156	−9,431
Liquid assets held abroad by U.S. private residents (purchases −)	−1,734	−4,734	−1,014	−3,720
Liquid assets held in the United States by foreign private residents (purchases +)	2,138	12,400	4,950	7,450
Liquid (and other) assets held in the United States by foreign official agencies (purchases +)	16,170	−540	−4,575	4,035
Transactions in U.S. official reserve assets excluding SDR allocations (sales +; purchases −)	425	−596	−28	−568
Errors and omissions	−5,349	3,749	561	3,188

*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] Includes nonscheduled debt repayments to the United States and U.S. Government nonliquid liabilities to other than foreign official reserve agencies.

[3] Includes certain U.S. short-term bank and nonbank claims and all short-term liabilities of nonbanks.

NOTE.—Under conditions of fixed exchange rates and established obligations of official reserve agencies to maintain the exchange rate of their currencies between specified margins around par or central values, surpluses or deficits may be measured by the changes in U.S. official reserve assets and in liabilities to foreign official reserve agencies. These figures may be computed from the data shown in the table in the first and second line above "Errors and omissions." Such obligations with respect to the U.S. dollar did not apply after March 1973.

Source: U.S. Department of Commerce, Survey of Current Business, June and September 1974.

In order to explore in greater depth the ways in which capital transactions take place and are reported, a series of interviews by senior balance of payments experts from the Departments of the Treasury and Commerce and the Federal Reserve System with senior financial officials of large multinational firms in several areas of the United States, was begun in June 1973 and completed in the first quarter of fiscal 1974. While the interviews disclosed some concrete reporting problems which could be solved within the existing statistical framework, the corporations interviewed found no major gaps or conceptual inconsistencies in the reporting systems.

Foreign currency reports

On June 27, 1974, the Department published in the Federal Register notices of proposed rule making and proposed reporting forms requiring reports of the foreign currency positions of banks and other firms, with provision for a 30-day period for written comment by interested parties. The new reports were required by Public Law 93–110, an amendment to the Par Value Modification Act, which was signed into law on September 21, 1973. Title II of the law required the Secretary of the Treasury to institute new statistical reports pertaining to the foreign currency transactions of banks and other business firms in the United States, including agencies, branches, and subsidiaries of foreign banks and other foreign firms, and of foreign branches and majority-owned foreign subsidiaries of U.S. firms.[1]

The new reports were developed through extensive consultation with banks and other firms by experts of the Department of the Treasury and the Federal Reserve System. They were designed to provide information on the activities of large banks and other large firms which affect the position of the dollar in the foreign exchange market. The proposed reports would provide data, weekly and monthly from banks and monthly from other firms, on their spot and forward positions and on selected assets and liabilities in major foreign currencies. Reporting exemptions were designed to limit reporting to major banks which participate actively in the foreign exchange markets and to major nonbanking firms. The reports filed by banks might be made available to the Comptroller of the Currency and the Board of Governors of the Federal Reserve System to the extent authorized by the Federal Reports Act.

International Trade Affairs

Fiscal 1974 saw the world economy plagued by inflation and shortages in many commodities. Higher energy costs and consequently larger import bills have put pressure on various countries' balance of

[1] See exhibits 36 and 76.

payments positions. These conditions have focused attention on the need to improve the operation of the international trading framework—to develop rules which will enable countries to deal with pressing domestic problems while minimizing disruptions to world trade and the shifting of economic burdens to other countries. The establishment of such rules is a major goal of the multilateral trade negotiations under the auspices of the GATT and is also under review by the OECD and IMF.

In addition to the increased relevance of these broad concerns with the trading framework, significant developments during the fiscal year were the conclusion of our negotiations with the European Communities on the trade effects of its enlargement to nine members; agreement on a new multilateral textile arrangement; and signing of a new trade agreement with the U.S.S.R. Other major issues during the year which will continue to demand attention in fiscal 1975 are action by the Senate on the House-passed trade bill to provide for our bargaining in the trade negotiations; the effects on our trade of the European Communities-European Free Trade Association (EC–EFTA) free trade arrangements; and negotiation of a comprehensive treaty on oceans law.

One major development in the trade field was the growing pressure to resort to trade restrictions to finance balance of payments deficits caused in particular by higher energy costs. To deal with these pressures the United States proposed in April an amendment to the IMF Articles of Agreement to require prior IMF approval of trade restrictions or subsidies for balance of payments reasons. The United States also proposed that in the interim, before an amendment could take effect, member governments of the IMF adopt a pledge to avoid the escalation of restrictions on trade and payments for balance of payments purposes. Nevertheless in May, Italy found it necessary to impose a 50-percent prior deposit requirement on imports, refundable after 6 months. That same month Iceland instituted a 25-percent 90-day import deposit scheme applicable to about 60 percent of its imports. Also in May, Denmark instituted a new excise tax affecting mainly imports to counter balance of payments pressures. These measures lent urgency to the need to prevent the spread of trade restrictions.

On May 30, the United States joined other OECD countries in adopting a declaration calling for a 1-year standstill on unilateral trade or other current account measures.[1] The declaration recognizes that unilateral trade or other current account measures would aggravate the problems of other countries and, if widespread, would have a depressing effect on the world economy and thus be self-defeating.

[1] See exhibit 68.

The standstill declaration covers import restrictions, export restrictions, and measures to artificially stimulate exports, including export credit practices, and calls for consultations within the OECD to assure its implementation. Nevertheless, since the OECD declaration covers only a 1-year period, the United States considers it is essential to pursue its proposals in the IMF which specifically relate to balance of payments measures, would involve a much larger number of countries, and would place the new undertaking in the formal structure of international agreements.

Other issues arousing concern in late 1973 and in 1974 involved shortages of raw and semiprocessed materials and export controls. Last year's soaring commodity prices and scarcities, the application of export controls by various countries on commodities such as foodstuffs, steel scrap, woodpulp, and petrochemicals, and concern that other nations might attempt to form other producer cartels in emulation of the Organization of Petroleum Exporting Countries (OPEC) all served to focus attention on supply access problems.

A particularly troublesome manifestation of the supply access problem is a growing interest among some countries in forming producer cartels. A number of agricultural and mineral-producing countries, particularly among the developing countries, have been influenced by OPEC's efforts to raise oil prices by joint producer action. In March of 1974 seven countries formed the International Bauxite Association. In the same month seven Latin American nations agreed in principle to form an Organization of Banana Exporting Countries, and even before formal establishment a number of the members imposed a banana export tax equal to 25–50 percent of export prices. Similar activity has been underway among producers of commodities as diverse as copper, coffee, mercury, phosphates, and iron ore.

The United States objects to such producer action on several grounds. Most producer groupings have not provided for representation of consuming country views. Sudden increases in prices are disruptive of consuming nation economies and have a worldwide inflationary impact. Artificially high prices can result in the wasteful shift of investment resources away from the most economic sources. Furthermore, short-term profits obtained by cartellike actions may be more than offset as higher prices attract new supplies and substitutes onto the market, thus creating oversupply conditions and lower prices and eventually leading to collapse of the cartel.

Both balance of payments pressures and supply access problems underline the need for new international trading rules and for the continued reduction of trade barriers. These difficulties argue more strongly than ever for moving forward with the process of trade negotiations. As Secretary Shultz testified before the Senate Finance Committee in March,

> During a time of rapid inflation and of short supply situations in many commodities, it has become more important than ever to remove artificial barriers that result in fewer goods being produced both here and abroad.
>
> * * * * * * *
>
> Recent events have created the danger of a new protectionism and a breakdown of the multilateral and nondiscriminatory trading arrangements of the postwar period. We must combat that danger and create a new momentum for cooperation in the field of trade.

(The full text of Secretary Shultz' testimony is printed as exhibit 80.)

The vehicle for achieving a more flexible and open trading system is the multilateral trade negotiations. Trade and economic ministers of more than 100 nations formally launched the negotiations in Tokyo in September 1973.[1] In their Declaration at Tokyo the ministers defined the aims of the multilateral trade negotiations as the expansion and liberalization of world trade and the improvement of world living standards. They gave support to the progressive dismantling of obstacles to trade and to the improvement of the international framework for the conduct of world trade. They further recognized that trade liberalization should facilitate the orderly functioning of the monetary system. The ministers affirmed that the principles governing the conduct of the negotiations are to be mutual advantage, mutual commitment, and overall reciprocity, and also recognized the need to take special measures to assist the developing countries. (Secretary Shultz' remarks as head of the U.S. delegation at the Tokyo Ministerial Conference are printed as exhibit 77.)

In Tokyo, the ministers established an intergovernmental Trade Negotiations Committee to supervise the conduct of the multilateral trade negotiations and elaborate detailed negotiating plans. The Trade Negotiations Committee first met in October 1973, and after months of intricate bargaining on specific tasks and a working group structure, agreed on a preliminary work program for the negotiations in February 1974. Preparatory work began immediately thereafter and is scheduled to continue through July to compile the basic statistical and analytical data required. This preparatory work will set the stage for serious bargaining by the participants in the fall of 1974.

Our major goals in the negotiations are the reduction or elimination of tariffs on a most-favored-nation basis; the elimination or harmonization of nontariff barriers and other trade-distorting measures;

[1] See exhibit 78.

liberalization and improvement in the conditions of agricultural trade, including the broad range of governmental measures which impede international trade flows; and improvement of the international framework for the conduct of world trade. Efforts to improve the trading framework may entail amendment of present GATT provisions, the negotiation of new rules or codes of conduct within or outside GATT, or the establishment of new institutional frameworks.

Meaningful U.S. participation will require enactment of the Trade Reform Act, proposed to the Congress in April 1973 and passed by the House of Representatives in December. The Senate Finance Committee completed hearings on the bill in the spring of 1974 and began markup of the bill in June.

As passed by the House, the bill would give the President the authority to raise or lower import duties, negotiate nontariff barrier agreements subject to congressional veto, take measures to deal with serious balance of payments deficits or inflationary pressures, grant tariff preferences to developing countries, retaliate against unreasonable or unjustifiable foreign import restrictions adversely affecting U.S. exports, and extend most-favored-nation tariff treatment to countries not now receiving such treatment. Further, the bill would give the Secretary of the Treasury discretion for 4 years not to impose countervailing duties on subsidized imports (for 1 year in the case of products of state-owned enterprises) if to do so would jeopardize the multilateral trade negotiations.

One controversial issue in the bill which must be resolved is whether the granting of most-favored-nation treatment and the extension of U.S. Government credits to the U.S.S.R. and other Communist States will be linked with emigration policy. A solution to this problem and subsequent passage of the legislation is expected in fiscal 1975 and will spur the pace of both domestic and international preparations for negotiations.

Prospects for the success of the negotiations were enhanced by the settlement between the United States and the European Communities in May of their negotiations over new trade concessions to the United States to compensate for concessions withdrawn in the course of the EC's enlargement from six to nine members. When Denmark, Ireland, and the United Kingdom joined the EC in January 1973, they agreed to adopt the EC's common external tariff and its common agricultural policy over a 5-year period. As a result, U.S. exporters to the three acceding countries face increased protection in agricultural products but generally lower duties on industrial products.

The U.S. objective in the negotiations, provided for under GATT Article XXIV:6, was to ensure that prospects for U.S. exporters were on the whole no less favorable as a result of changes in border measures in the acceding countries than before enlargement of the EC. Restoring this overall balance in the Article XXIV:6 negotiations required that the EC of Nine make duty reductions on specific products of special value to U.S. exporters.

After almost 15 months of arduous negotiation, the EC finally agreed to a compromise settlement package in May of this year, with a formal agreement to be signed in early fiscal 1975. Estimates are that the value of U.S. exports to the EC of items on which new concessions have been made is in the range of $750 million to $1 billion. The most promising concessions are on tobacco, citrus fruits, and kraft paper. In addition, the United States "reserved its rights" under GATT to continue negotiations on compensation claimed by the United States on certain grains.

Settlement of this difficult and sensitive issue confirmed that the political will is present to proceed with the resolution of trade issues and to attempt in the multilateral trade negotiations to further reduce and eliminate barriers to trade. President Nixon hailed the agreement as a "major step toward improved Atlantic relationships."

Another major accomplishment was the successful negotiation in December of 1973 under GATT auspices of the Arrangement Regarding International Trade in Textiles, covering the three major textile fibers (wool, cotton, and manmade fibers). The new arrangement, which replaces the Long-Term Cotton Arrangement, provides a broad framework to govern trade in textiles balancing the interests of importers and exporters. It will permit the continued expansion of textile trade while providing agreed procedures to prevent market disruption. The arrangement defines criteria to be met before new trade restrictions can be imposed and sets forth guidelines for the operation of trade restraints. A significant innovation in the new arrangement is the creation of a Textile Surveillance Body, which provides a degree of international oversight on trade restraints on textiles.

Significant Treasury effort went into U.S. Government preparatory activity preceding the third U.N. Conference on the Law of the Sea, which began June 20, 1974, in Caracas, Venezuela. Treasury, as a principal participant in the interagency Law of the Sea Task Force, conducted several analyses of economic implications of alternative U.S. postures. The studies varied from basic economic research on nonrenewable resources such as manganese nodules and renewable resources such as fish to identifying the likely operating behavior and economic consequences of organizations suggested for monitoring or controlling deep seabed activity.

In other developments, the United States began formal consultations with the EC and with EFTA countries in April under GATT Article XXII to discuss the EC's free trade area agreements with

EFTA. The free trade area agreements, covering mainly industrial products, contain restrictive rules for determining the country of origin and thus the basis for duty-free treatment of products traded among the free trade area partners. The United States requested these consultations, which will continue in fiscal 1975, because of its concern that the rules of origin will adversely affect U.S. exports of components and materials to the EC and EFTA.

Secretaries Shultz and Simon led the U.S. delegation at meetings of the U.S.-U.S.S.R. Commercial Commission in October 1973 at Moscow and in May 1974 at Washington. A comprehensive exchange of views on the development of American-Soviet trade and economic relations took place at both meetings. The expansion of U.S.-U.S.S.R. trade in 1973 to $1.4 billion was noted. Treasury representatives also participated in joint commission meetings with the Poles in September 1973 and with the Romanians in April 1974.

A final accomplishment of the fiscal year was the signing on June 29 by President Nixon and Chairman Brezhnev of the long-term agreement between the United States and U.S.S.R. to facilitate economic, industrial, and technical cooperation.[1] Under Secretary of the Treasury Bennett had been a principal negotiator on the U.S. side. The agreement, which is to remain in force for 10 years, establishes a broad framework for exchanging information and views on important economic undertakings between the two countries. It should further encourage discussions on potential cooperation projects between private U.S. firms and Soviet foreign trade and other organizations.

Developing Nations Finance

International development banks

The United States contributed $788.4 million to the capital resources of the international development banks in fiscal 1974, as shown in the table below.

Institution	U.S. contribution	Comment
International Development Association	$320.0	Second of three installments to the third replenishment
Inter-American Development Bank—Ordinary Capital:		Completes U.S. subscription to the Ordinary Capital increase
Paid-in	25.0	
Callable	168.4	
Total	193.4	
Inter-American Development Bank—Fund for Special Operations.	225.0	$500 million remains to be appropriated from the amount authorized in fiscal 1972
Asian Development Bank—Asian Development Fund.	50.0	Initial U.S. contribution to Asian Development Bank concessionary facility

[1] See exhibit 83.

At the end of fiscal 1974, the United States was behind the schedules observed by other nations contributing to the international development banks by at least 6 months and, in amount, by $820 million (i.e., $320 million to International Development Association and $500 million to Inter-American Development Bank—Fund for Special Operations).

The United States, as the major contributor to the international development banks, is able to leverage its capital subscriptions significantly in terms of lending flows to developing countries supported by these contributions. The international development banks committed $6,057 million to over 70 developing countries in fiscal 1974. The distribution of commitments by institution was as follows: World Bank group, $4,516 million; Inter-American Development Bank, $1,064 million; and Asian Development Bank, $477 million.

To put into perspective the importance of these banks to development assistance generally, total lending flows from the international development banks accounted for 40 percent of the total official development assistance from Development Assistance Committee countries (OECD countries) in calendar year 1972, the latest year for which such data is available.

The World Bank group

The International Bank for Reconstruction and Development (IBRD) and its affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC), committed $4,516 million toward development projects in their recipient member countries in fiscal 1974. This volume represents a 34-percent increase over the fiscal 1973 level. IBRD made new loans of $3,218 million ($1,167 million more than in the preceding fiscal year) to developing countries, while IDA credits declined to $1,095 million (as compared with $1,357 million in fiscal 1973). IBRD and IDA lending was concentrated in agriculture, transportation, electric power, and industry, and sharp relative increases were registered in lending for transportation and urban development projects. IFC investments in equity and loans to the private sector increased sharply to $203 million in fiscal 1974 (as compared with $147 million in fiscal 1973 and $116 million in fiscal 1972). IFC investments were concentrated in iron and steel, textiles, and construction materials.

The World Bank group committed funds for development projects in 76 countries in fiscal 1974. The distribution of commitments by region was as follows: Africa, $694 million; Asia, $1,381 million; Latin America, $1,054 million; and Europe, the Middle East, and North Africa, $1,386 million.

The lending operations of IBRD are financed by paid-in capital subscriptions, funds borrowed in capital markets and from governments and central banks, sales of participations, principal repayments on loans, and earnings on loans and investments. IBRD's outstanding funded debt increased by $768 million during the year to the equivalent of $9,650 million. This debt includes 133 separate bond issues, denominated chiefly in U.S. dollars ($3, 683 million), deutsche marks ($2,450 million equivalent), Japanese yen ($1,632 million equivalent), and Swiss francs ($566 million equivalent).

During the year, IBRD borrowings reached a new peak of $1,865 million equivalent compared with $1,723 million in fiscal 1973 and $1,744 million in fiscal 1972. IBRD did not issue any securities in the United States during the year. The total borrowing of $1,865 million included $1,244 million equivalent bond placements to raise new funds and $621 million equivalent of refundings to roll over past issues that came due during the year.

The principal suppliers of funds were Japan, Germany, and Iran which lent the equivalent of $575 million, $220 million, and $200 million, respectively. Petroleum-exporting countries lent IBRD the equivalent of $567 million (including Iran), equal to 30 percent of total borrowing in fiscal 1974.

The market for IBRD obligations continued to broaden internationally in fiscal 1974 as indicated by the estimated division of holdings by country as of June 30, 1974: about 26 percent in the United States; 26 percent in Germany (of which 37 percent is held by the Bundesbank); 17 percent in Japan (of which 73 percent is held by the Bank of Japan); 6 percent in Switzerland; 5 percent in Kuwait; and 3 percent in Canada. The remaining 17 percent is held largely by central banks in other countries.

IDA credits are funded by member country subscriptions and contributions, grants from the net earnings of IBRD, repayments of credits, and earnings. Usable resources of IDA, cumulative to June 30, 1974, amounted to $7,420 million, of which developed countries had contributed $5,221 million and IBRD net income transfers supplied $809 million. Earnings and repayments on outstanding credits, together with contributions of developing and nonmember countries and exchange profits comprised the balance.

As of June 30, 1974, these resources had been fully committed, except for $169 million in advance contributions from donors under the IDA fourth replenishment agreement. The proposed fourth replenishment of IDA resources, negotiated among 25 donor countries in September 1973, to cover a 3-year period through fiscal 1977, calls for total additional contributions, subject to necessary legislative action, of the equivalent of $4,501 million in current dollars. (These contributions would not be subject to a maintenance of value provision.) The U.S. share of the replenishment under the negotiated agreement would be $1,500 million, or one-third of the total. In addition, U.S. contributions would be spread over 4 years and the initial installment would be delayed 1 year until fiscal 1976.

The agreement cannot become effective until at least 12 developed member countries pledging not less than $3,500 million notify IDA that they will make the contributions specified in the agreement. Thus, the fourth replenishment cannot come about without the participation of the United States.

Legislation to authorize the U.S. contribution was submitted to Congress on October 31, 1973. The Senate passed IDA replenishment legislation on May 21, 1974. The House of Representatives, which had initially rejected IDA legislation on January 23, 1974, in a vote heavily influenced by the then acute international oil situation, subsequently reconsidered its action and approved IDA legislation shortly after the end of the fiscal year (July 2, 1974).

The 28th annual meeting of the World Bank group's Board of Governors was held in Nairobi, Kenya, September 24–28, 1973. Secretary Shultz headed the U.S. delegation which included 27 Members of Congress.[1]

Inter-American Development Bank

During fiscal 1974, the IDB committed a total of $1,064.2 million from its two windows, $333.3 million more than in the previous fiscal year. Of this, $613.5 million was loaned on conventional terms from Ordinary Capital resources and $450.7 million on concessionary terms from the Fund for Special Operations. In addition, the IDB committed $4.4 million in administered funds.

As of June 30, 1974, cumulative lending by the IDB from its own resources totaled $6.1 billion. Of this, $2.9 billion had been loaned from Ordinary Capital and $3.2 billion from the Fund for Special Operations. In addition, the IDB had lent $594 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 1974, three sectors—transportation, power, and agriculture—received most of the funds committed. About 25 percent ($269.7 million) went to power. The agriculture and transportation sectors received 23.3 percent ($247.9 million) and 22.6 percent ($240.0 million), respectively. On a cumulative basis, agriculture has received the largest amount—23 percent, or $1,533.5 million; power has received the next largest amount—19 percent, or $1,251.2 million.

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[1] See exhibit 50.

The subscribed capital of the IDB totaled $5,954.3 million equivalent on June 30, 1974, of which $4,981.9 million was callable capital. The resources of the Bank's Fund for Special Operations totaled $4,393.6 million equivalent on June 30, 1974.

During fiscal 1974, the IDB members continued to urge prospective nonregional members (Europe and Japan) to join the Bank in order to enlarge its capital resources. A number of meetings were held to determine the terms of membership, including aspects of nonregional members' representation on the Board of Directors. The total amounts generally being considered for nonregional membership and for Board representation range from $800 to $900 million, depending on the number of countries participating. This includes callable guarantee capital, which does not involve a cash input. However, a total cash contribution of $500 million to the Ordinary Capital and the Fund for Special Operations combined was established as the minimum amount necessary for subscription by the prospective nonregional members. As of the end of the period under review in this report, the prospective nonregional members were still considering these terms.

In fiscal 1974, the IDB borrowed $150.9 million, with new resources obtained from Europe, Latin America, and Japan. This compares with $119 million in the preceding fiscal year. Borrowings included $43.9 million from Japan, $26.7 million from Switzerland, $23.6 million from Venezuela, $10.5 million from Austria, and $5.8 million from Sweden. Additionally, $40.2 million of 2- and 5-year bonds were sold to central banks in Latin America. The IDB's funded debt on June 30, 1974, amounted to the equivalent of $1,323.2 million.

The 15th annual meeting was held in Santiago, Chile, April 1–3, 1974. The U.S. delegation was headed by Secretary Shultz.[1] During the meeting the Governors approved a resolution authorizing a special trust fund to be financed by Venezuela totaling $500 million for loans to borrowing members, and they adopted a resolution requesting the Board of Executive Directors to submit to the Board of Governors proposed charter changes to admit the Bahamas and Guyana to membership in the Bank and to permit Bank lending to the Caribbean Development Bank. This matter is still pending. The Board of Governors also considered the possibility of increasing the capital resources of the Bank and requested the Committee of Governors to review the situation and prepare a recommendation.

Asian Development Bank

During fiscal 1974, the ADB committed a total of $446.7 million, $363.4 million from Ordinary Capital and $83.3 million from Special Funds. This brought the Bank's cumulative total of loans to $1,491.7

[1] See exhibit 90.

million—$1,162.4 million from Ordinary Capital and $329.3 million from Special Funds. As of June 30, 1974, the Bank had also undertaken 113 technical assistance projects.

With the accession to membership of the Gilbert and Ellice Islands, the Bank's membership reached 41—27 regional and 14 nonregional—with subscriptions totaling the equivalent of $2,725 million. Of this, 34 percent was paid-in capital.

During fiscal 1974, the Bank did not enter the U.S. capital market but borrowed $54.2 million outside the United States. Total funded debt at the end of the fiscal year was $262.8 million.

Authorization for a U.S. contribution of $362 million to the 1972 increase in the Bank's Ordinary Capital stock is being requested, and the first of three annual installations of $121 million is included in the fiscal 1975 budget.

A $100 million U.S. contribution to the Bank's Special Funds was authorized on March 10, 1972. $50 million of this contribution was appropriated in December 1973, and contributed to the Bank on April 19, 1974.[1]

As of May 31, 1974, 13 countries, including the United States, had contributed $382 million to the Bank's Special Funds (apart from technical assistance); in addition, $57.4 million has been set aside from Ordinary Capital resources for such lending.

On June 28, 1974, the Asian Development Fund (ADF)—a restructured unified Special Funds—came into effect when $236.9 million was pledged to the ADF by 10 developed member countries of the Bank, including the United States, whose $50 million contribution to the Bank's Special Funds was transferred to the ADF. The resources to be contributed to the ADF in its initial 3-year period total $525 million, of which the suggested U.S. share is $150 million. The remaining $50 million previously authorized and another $50 million which is pending authorization in the Congress would complete the U.S. share.

The seventh annual meeting of the Bank's Board of Governors was held in Kuala Lumpur, Malaysia, April 25–27, 1974. Secretary Shultz headed the U.S. delegation.[2]

African Development Bank

In July 1973 a group of 15 industrialized nations in coordination with the AFDB set up the African Development Fund (AFDF)—a concessional lending fund associated with the Bank. The United States is not a member of the AFDF, but is eligible for membership in the Fund as an original participant because of U.S. participation in the

[1] See exhibit 91.
[2] See exhibit 92.

negotiations of the Agreement Establishing the African Development Fund.[1]

Legislation authorizing U.S. participation in the Fund was introduced by Senator Humphrey in August 1973. Because of this potential membership, the U.S. Government sent, as in the past, observers to the ninth annual meeting of the AFDB and the inaugural meeting of the AFDF which took place in Lusaka, Zambia, in the first week of July 1973.

In fiscal 1974, the Fund Board of Directors approved six loans and four studies totaling about $26.5 million. The Fund's lending terms are comparable to IDA, and its loans have been for irrigation, road, and agricultural projects.

The Fund's lending program for calendar 1974 is expected to reach about $44 million, with continued emphasis on West and Central Africa—the areas hardest hit by the drought.

The impact of increased oil prices on the developing countries

The quadrupling of oil prices since 1972 requires major economic adjustments in all oil-importing nations. For the poorer developing countries these adjustments are particularly difficult because they have less margin to squeeze consumption, smaller exchange reserves, and more limited access to international capital markets. In a number of cases these countries were already facing serious problems; for example, those countries affected by the drought in Africa and some of the nations of the Indian subcontinent where production has not increased at sufficiently rapid rates to sustain rapid economic development.

Although these countries—the most seriously affected—will have to adjust to the changes in relative prices of energy, grain, and other commodities as will other countries, these poorest countries already facing major development challenges need additional help during an interim period. With such help they can continue their investment programs and take advantage of new opportunities offered by the changes in relative prices. For example, some of these countries have coal, oil, gas, and undeveloped hydroelectric potential which can be developed rapidly to support their own development and to reduce worldwide shortages and high prices. Many of these countries have the potential to increase grain and mineral production. However, investment is required to bring this additional production on to the market, investment not only in the directly productive facilities but also in the infrastructure of transportation, power, urbanization, and educational facilities to support such production.

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[1] See exhibits 93 and 95.

The immediate effect of the sudden increase in prices is to divert the limited foreign exchange resources of these countries away from the investment needed to increase production in future years in order to pay for the food, fuel, and fertilizer essential to sustain life and local production this year. Thus there is a transitional need to redirect and add to the flows of assistance so that productive investment can be sustained in these hard-hit developing countries without forcing a severe reduction in their already modest living conditions.

The best solution to this problem is, of course, to reduce the high prices underlying the problem. Such a reduction also would avoid the continuation of such high prices that these countries—as well as others—are encouraged to invest in very expensive energy and food production projects.

To the extent additional development financing is needed the most obvious source is the large surpluses of the oil-exporting countries. These countries have begun to make substantial amounts of additional assistance available, both directly and through the international capital markets and international institutions such as the International Monetary Fund and World Bank. However, much of this assistance flows only on commercial terms and the poorer developing countries cannot afford to pay commercial rates of interest.

Thus expanded international cooperation is needed to facilitate and encourage additional flows on concessional terms and to assure that the distribution of assistance from the many bilateral and multilateral donors treats the poor nations equitably and does not result in some nations receiving little or none of the vitally needed assistance.

Partly in response to these critical problems, agreement was reached at the final C–20 meeting in June 1974 on establishing a Ministerial committee on the transfer of real resources. The committee is to give, inter alia, urgent attention to the problems of developing countries most seriously affected by exceptional balance of payments difficulties due to the oil price increases. In view of the pressing needs of these countries, work in this aspect of the committee's work will begin in August 1974, although the formal establishment of the committee will probably occur at the time of the Fund/Bank annual meeting in the fall. The United States believes that this Ministerial committee can provide a needed focal point for consideration of a broad range of development issues.

Investment security

The Interagency Committee on Expropriation, whose membership includes the Departments of State, Treasury, and Commerce, was established in fiscal 1973 to implement President Nixon's policy statement of January 19, 1972, on expropriation. During fiscal 1974, this Committee continued to monitor investment security situations and met on a monthly basis to consider actual and potential investment problems in order to head off investment disputes where possible, and plan the U.S. response to countries which expropriated or unfairly treated U.S.-owned interests without providing for prompt, adequate, and effective compensation.

During the year, the Department of the Treasury participated in several international negotiations to resolve outstanding disputes and increase international understanding of the need for investment security to promote development. Most notable was the agreement signed in February 1974 with the Government of Peru to settle claims of U.S. nationals as a result of contract disputes, expropriations, or other forms of permanent taking. A more general approach was adopted in April when Foreign Ministers from the United States and Latin America agreed to the establishment of a Working Group on Transnational Enterprises. In this forum, the U.S. Government hopes to engage in frank discussions of investment questions and increase understanding of the nature of the relationship between foreign investors and Latin American governments.

Debt rescheduling

Agreement in principle was reached in fiscal 1974 between the United States and Pakistan to reschedule payment of approximately $240 million of the debt due to the United States during the years 1974–1979. These obligations were in dispute following the separation and creation of Bangladesh. Other creditor nations rescheduled payments of approximately $420 million worth of Pakistan obligations at the same time.

The United States also reached agreement in principle with the Government of Chile to reschedule a total of approximately $230 million in obligations to the United States. Debts to other creditors of about $400 million also are being rescheduled for similar maturities. In addition, the United States participated in a multilateral debt agreement with Ghana (although no U.S. debt was rescheduled), and discussions were in process with the Government of India.

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 concerns are to relate the various foreign economic assistance programs to overall U.S. economic interests and international development objectives, and to assure the interrelationship and consistency of bilateral and multilateral programs.

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.

Agency for International Development.—As a member of the Development Loan Committee of AID, Treasury focuses primarily on the economic and financial impact of AID development lending programs and on the macroeconomic policy performance of the borrowing countries. During fiscal 1974, AID authorized 49 new development loans, totaling $488.2 million. Of these, $93.0 million took the form of general program loans, and $395.2 million went to specific projects and sector programs.

Public Law 480.—Treasury is represented on the Interagency Staff Committee, which reviews all Public Law 480 proposals, and looks primarily at the impact of this program on the U.S. balance of payments and the domestic economy. During fiscal 1974, Title I sales agreements were signed with participating governments and private trade entities for a total export market value of $593.5 million, down substantially from the levels of previous years. Title II donations totaled $282 million for commodity expenses, about the same as the previous year.

Local currency management.—The United States negotiated with the Government of India settlement of payment of about $3.3 billion equivalent in nonconvertible rupee currency owed to the United States from development loans and shipment of agricultural commodities. Under the settlement, the United States granted back to India approximately $2.1 billion in local currency obligations while retaining over $1.0 billion equivalent in India to be used for official U.S. expenditures such as research, educational exchange, and travel. The funds retained for U.S. uses are expected to last at least 20 years at estimated rates of disbursement. This settlement does not affect repayment of dollar obligations of the Indian Government to the United States of about $3 billion.

In addition, the Secretary of the Treasury annually determines the foreign currency holdings of the United States that are in excess of projected requirements. Treasury's primary objective in the management of these currencies is to maximize the favorable balance of payments impact accruing from their use. Currencies declared in excess for fiscal 1974 were those of Burma, Egypt, Guinea, India, Pakistan, Poland, Tunisia, and Yugoslavia (the latter through December 31, 1973, only).

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 1974. OPIC administers two major 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 $994.8 million in investment insurance in fiscal 1974, a rise from the $649 million issued in fiscal 1973. The financing program guaranteed $7.8 million of new investment in the developing countries and extended $4.4 million in direct lending during fiscal 1974. In fiscal 1973, $5 million in guarantees and $12.7 million in direct loans were signed.

ADMINISTRATIVE REPORTS

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ADMINISTRATIVE MANAGEMENT

Special studies, projects, and programs

The management and planning staffs of the Office of the Assistant Secretary (Administration) completed numerous studies and projects and initiated new procedures 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 (Administration).—Responsibility for the Treasury equal opportunity program, including depositary bank compliance, was transferred to the Assistant Secretary (Administration) from the General Counsel. An analysis of the structure, staffing, policies, and procedures of the Office of Equal Opportunity Program led to plans for increased efficiencies in program operations and a more effective bank compliance program.

An informal self-assessment program was initiated at the request of the Secretary to encourage heads of bureaus and offices in the Office of the Secretary to take a candid look at the strengths and weaknesses within each organization which affect the way functions are performed. The responses brought to light a number of problem areas that in some cases had been accepted as inherent or unsolvable aspects of a particular mission. Since several matters involve a number of different offices within Treasury as well as other agencies with which Treasury deals, the Assistant Secretary has been designated as coordinator for the corrective actions, and his offices will furnish technical assistance as requested by program officials.

During fiscal 1974, the Assistant Secretary (Administration) met monthly with his counterparts in other agencies to discuss common issues and problems; management staff furnished him support for this activity, including preparation of administrative issue papers and participation in two in-depth studies.

Office of the Secretary.—The basic departmental organization was restructured to provide a more equitable distribution of responsibilities among senior Office of the Secretary officials and to facilitate direction and coordination of both operational and policymaking functions. Major organizational changes included: Delegation of responsibility to the Under Secretary for supervising operating elements of the Office of the Secretary; designation of an Assistant Secretary (Legislative Affairs); and designation of an Assistant Secretary (Trade, Energy, and Financial Resources Policy Coordination).

A study was made of the Office of Revenue Sharing to assess current operations and to gather information on which to base future policy decisions and resource allocations.

Departmental.—A study, conducted to assess the status of implementation of the Bureau of Alcohol, Tobacco and Firearms, established July 1, 1972, resulted in recommendations for improving ATF effectiveness and efficiency and in development of budgetary justifications for additional Bureau resources.

In addition, a study was made of the Bureau of the Mint to evaluate organizational effectiveness and to review implementation of recommendations set forth in the 1971 comprehensive management review of the Bureau.

The management by objectives (MBO) program was continued in the Department to identify top priority objectives, to focus attention on the accomplishment of those specific goals, and to assess performance through the measurement of the results obtained. Through the MBO system top management officials are able to track performance in key programs. Paperwork associated with the MBO system has been kept to a minimum. MBO has contributed to improved program effectiveness in Treasury.

The Office of Management and Budget/Civil Service Commission/General Accounting Office coordinators of the annual productivity review have repeatedly praised Treasury for its exemplary practices in the productivity field. Various Treasury bureaus have been cited for their application of the behavioral science approach to improve the motivation and productivity of their personnel. Other bureaus have received praise for their identification and implementation of capital investments which improve productivity.

Treasury bureaus maintain measurement systems which cover a large proportion of their man-years (77 percent) comparing favorably with other Government agencies. These measurement systems provide managers with a tool to evaluate the results of their actions and to anticipate the benefits of potential actions.

Advisory committee management.—In accordance with Public Law 92–463, Federal Advisory Committee Act, effective January 5, 1973, uniform procedures for establishing and operating advisory committees within the Department were formulated and refined. As departmental committee management officer, the Assistant Secretary (Administration) regularly monitored implementation of the control procedures.

Environmental quality program.—Under the direction of the Assistant Secretary (Administration), as departmental environmental quality officer, the implementation of a more structured and comprehensive environmental quality program was continued and a revised version of the departmental procedures for environmental impact statements was issued.

Technical assistance to foreign governments and officials.—Treasury continued its close cooperation with the Agency for International Development in its programs of technical assistance to developing nations. Customs and tax advisers are working in over a dozen such countries. In the Treasury itself, orientation, educational, and training programs are provided on a continuing basis to foreign visitors referred by AID and other agencies, both governmental and nongovernmental, involving in fiscal 1974 over 100 man-days of such activity.

Emergency preparedness

The Mobilization Planning Staff met several times with officials of the GSA Office of Preparedness (formerly the Office of Emergency

Preparedness), several Federal financial agencies, and Treasury bureau emergency planning officers to clarify and implement new concepts and policies prescribed by OEP for emergency preparedness planning and operations at the regional level. As a result, the revised directives on regional continuity of government, organizational arrangements and civil preparedness readiness levels were implemented by the issuance of Treasury emergency planning circulars to Treasury bureaus providing policy and guidance concerning regional preparedness requirements and plans for continuity of essential functions.

Arrangements were completed to establish a remote computer-querying capability at the Treasury's alternate relocation site. This would be used for obtaining, from the GSA Office of Preparedness computer, situation summaries and damage assessment information concerning the status of Treasury facilities throughout the country in the event of a natural disaster or a nuclear attack.

A comprehensive briefing program was developed for the initial orientation and instruction and periodic refresher briefing of members of Treasury headquarters emergency executive teams regarding emergency plans and procedures and their emergency assignments. This program provides for a briefing and tour of facilities at the Department's relocation site for certain key personnel.

Plans and procedures were revised for the operation and administration of the Treasury alternate relocation site in the event of an emergency relocation.

Internal auditing

Adequate and qualified staffing of bureau audit functions and increased management and operational audits were established as high-priority goals in fiscal 1974. The Department's audit policy was revised to strengthen OA's (Office of Audit) central administrative role, including participation in the selection process for key bureau auditor positions and extending overview to regulatory and revenue sharing audit functions at the Customs Service and the Office of Revenue Sharing.

OA was actively involved in the planning stage for the new Customs third-party audit program for the regulation of customhouse brokers and also drawback claimants and others covered by duty-free tariff provisions. The staff also worked closely with the Office of Revenue Sharing contractor to develop guidelines for use of government auditors and independent public accountants in auditing revenue sharing entitlements.

The Bureau of the Mint reacted favorably to a proposal for establishing field auditor positions at the Philadelphia and Denver Mints and the San Francisco Assay Office, and OA helped recruit the audit staffs. The Bureau of the Public Debt and the Bureau of Alcohol, Tobacco and Firearms were also encouraged to establish field audit staffs. ATF received frequent attention through participation in the recruitment of auditors, visits to industrial plants, and assistance in developing audit plans.

Direct audit service was provided to the Office of the Secretary, Cost of Living Council, and Consolidated Federal Law Enforcement Training Center. Surveys of production flow for coinage metals at the Denver Mint and San Francisco Assay Office identified opportunities to strengthen accounting control and improve operations. OA's first audit of the Exchange Stabilization Fund concentrated on ways to reduce the workload and strengthen control, with considerable support provided in resolving day-to-day accounting problems. OA also collaborated with GAO in preparing the working capital fund accounting system design for approval by the Comptroller General.

Continuous liaison was maintained with GAO on matters of mutual concern including coordinating responses to reports on departmental activities. In this role, OA helped resolve problems with access to information needed by GAO in auditing Exchange Stabilization Fund administrative activities.

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 almost $38 billion in fiscal 1974. The amount includes $1.9 billion for operating appropriations, $29.7 billion for public debt and other interest and miscellaneous accounts, and $6.1 billion for general revenue sharing.

During fiscal 1974, the budget staff:

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

(2) Gave special budgetary consideration and emphasis—including the preparation of requests for budget amendments and supplemental appropriations, and reimbursements—to programs of special concern to the administration. These included the budget amendment to reflect the 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, and supplemental appropriations for increased protection of foreign missions by the U.S. Secret Service. Supplemental funds were processed to cover postage increases, increases for the Government's share in health benefits, and increases in the costs of supplies.

(3) Obtained supplemental appropriations for the cost of pay increases authorized by Executive Orders 11691 and 11739, wage board actions, and administrative actions amounting to $113.6 million. A total of $11.9 million of the increased costs was absorbed by application of management savings, reimbursements, and use of budgetary reserves.

(4) Assisted in and facilitated the financial aspects of the reorganized Fiscal Service, consolidating the functions of the Bureau of Accounts and Office of the Treasurer of the United States (except the immediate office of the Treasurer and the Securities Division) to form the new Bureau of Government Financial Operations.

(5) Assisted in the preparation and presentation of budget requests for funds totaling over $3 billion to be appropriated to the President for the U.S. share to the international financial institutions of which the Secretary of the Treasury serves as a Governor. Of this total, $2.2 billion represents an additional appropriation necessary for maintaining the value of the holdings of U.S. dollars by these institutions under the 1973 revaluation of the dollar.

Accounting systems.—Efforts to maintain and strengthen the administrative accounting systems of the Department were continued. Administrative accounting systems for the Bureau of Alcohol, Tobacco and Firearms; the Office of the Secretary, working capital fund; and the Internal Revenue Service, Federal tax lien revolving fund, were designed, submitted to, and approved by GAO. All administrative accounting system designs in the Treasury now stand officially approved as being in conformance with the prescribed principles, standards, and related requirements of the Comptroller General. Thus, Treasury and three other departments (of a total 11 executive departments) have successfully concluded such status to date.

Staff efforts are now being concentrated toward developing improved accounting automation to enhance timeliness, quality, and responses to management in the areas of budgeting and financial reporting. Culmination of these efforts should provide a significant impact on long-range planning, budget formulation capabilities, and execution processes with regard to managing appropriated resources.

Personnel management

The Secretary announced the initiation of an intensified upward mobility program. The program is aimed at opening meaningful careers to employees in dead-end positions at the lower grades through counseling and specialized vocational training ranging from basic skills improvement to professional courses at the university level.

An affirmative action plan for Treasury on employment of handicapped individuals was prepared pursuant to Public Law 93–112. The plan establishes policy and sets forth specific action items to be completed during fiscal 1975.

During the year sustained progress was made in developing and expanding managerial and professional capabilities of executives and those identified as having high potential for executive assignment. Twenty-five managers and executives attended the Civil Service Commission Federal Executive Institute at Charlottesville, Va., and over 200 attended the various 2-week programs of the Executive Seminar Centers.

A new supergrade position management system is now in operation which permits the most effective utilization of supergrade positions on a Department-wide basis.

A new staff organization, Personnel Management Evaluation, was established and staffed within the Office of Personnel in February 1974. This staff will carry out the Department's responsibilities as set forth in the Presidential memorandum of October 9, 1969, which are to establish and maintain a system for the assessment and improvement of the effectiveness and efficiency of the Department's utilization of human resources.

Labor relations activity within the Department continued to command top management attention. Exclusive recognition was granted two new bargaining units of some 500 employees, raising the total of organized employees within the Department to over 70,000, or 65 percent of the work force. Over 32,000 employees were affected by the negotiation of two new agreements and the renegotiation of three others.

Other major labor relations program developments included (1) the completion of an in-depth self-evaluation by the bureaus of their labor relations programs; (2) the presentations to the Federal Labor Relations Council of recommended revisions of Executive Order 11491, as amended; and (3) the relaxation of departmental requirements in several personnel areas to better enable bureau management to respond to legitimate union and employee concerns in these areas.

A revised Personnel Security Manual was issued. Also issued was a revised set of instructions for conducting personnel security investigations pursuant to Executive Order 10450.

Procurement and personal property management

During fiscal 1974, the negotiation of 35 blanket purchase agreements for office machines and miscellaneous supplies for use by all Treasury bureaus provided a savings in excess of $130,000. The consolidation of Treasury requirements for 423 undercover law enforcement vehicles, procured through GSA, resulted in a significant dollar savings over separate procurement methods and an improved quality of vehicle. Average price was below $3,000.

Treasury's personal property transactions during fiscal 1974 included the reassignment within Treasury of property valued in excess of $800,000; transfer of personal property valued in excess of $1 million to other Federal agencies for their use; and the donation of personal property valued at approximately $700,000 no longer needed by the Federal Government for use by State organizations and nonprofit groups. Treasury also obtained, without cost, personal property valued at over $2 million from other Federal agencies.

Real property management

In fulfilling an urgent requirement to house the newly created Federal Energy Administration, a portion of the Post Office Building in Washington, D.C., acquired by Treasury last year, was reassigned to FEA. The planned relocation of some Treasury elements to the Post Office Building has been delayed, but the Bureau of Alcohol, Tobacco and Firearms has been housed in its permanent quarters in the building, along with some elements of the Internal Revenue Service.

The Bureau of the Public Debt's new office building in Parkersburg, W. Va., which will consolidate its Chicago and Parkersburg activities, is scheduled for completion in November 1974. The new microfilm depository located in Ravenswood, W. Va., is expected to open in July 1974.

Bureau of the Mint activities in Washington, D.C., have been consolidated and are housed in the Warner Building.

Construction of the new Denver Mint on a site to be furnished by the city of Denver was restrained when the city was unable to fulfill its agreement to convey the necessary property to the Government. An environmental impact statement citing the possible use of either the Denver Federal Center or the Park Hill Golf Course as the site of the new mint has been filed. A site location decision will be made in July 1974 based on public response to the statement.

Consolidation of the U.S. Customs Service at Columbia Plaza experienced delays, which precipitated an alternative GSA plan to house Customs in the Main Labor Building. The utilization of this Federal building, contiguous to other Treasury activities, is consistent with the Department's collocation and consolidation goals.

The Main Treasury Building, one of Washington, D.C.'s historic landmarks, has undergone substantial repairs and will continue to do so. Projects to renovate the roof and to install air conditioning on the fifth floor are essentially complete.

Printing management

During fiscal 1974 the Treasury printing staff took over the printing support for the Federal Energy Administration until that newly established office was able to produce its own work. The printing support to the Cost of Living Council was terminated on a gradual basis during the last quarter of the fiscal year. Treasury will continue to furnish printing support to the Office of Economic Stabilization.

GSA has awarded a contract for the renovation and refurbishing of space in the subbasement of the Treasury Annex to house the Treasury consolidated printing plant.

Physical security

On July 9, 1973, Secretary Shultz signed Treasury Department Order No. 160, Revised, which delegated authority for implementation of Executive Order No. 11652, as amended, and the National Security Council Directive of May 17, 1972. Treasury Department Order No. 160, Revised, was issued as an appendix to Title 31, Code of Federal Regulations, Subtitle A, Part 2, entitled "Classification, Downgrading, Declassification and Safeguarding of National Security Information and Material." Both of these were transmitted throughout the Department via Treasury Administrative Circular No. 242, dated August 16, 1973. Administrative Circular No. 242, Supplement No. 1, October 3, 1973, and Supplement No. 2, June 25, 1974, entitled "National Security Information Report Requirements," established within the Department reports as required by the Interagency Classification Review Committee, National Security Council.

Telecommunications

After 2 years of negotiations with GSA and the Chesapeake and Potomac Telephone Co., the Treasury telecommunications staff obtained GSA's concurrence in converting Treasury's telephone system to Centrex II service. The first significant phase in the conversion is expected to occur in July 1974. Plans call for the conversion to be completed in fiscal 1976, when new attendant facilities will be installed in the first floor vault area of the Main Treasury Building and the Treasury system becomes operative as an independently operated and managed, but integral, segment of the Metro Centrex System.

During fiscal 1974, significant progress was made in the planning for an automated telecommunications facility at Main Treasury. Implementation of this project will provide an automatic message handling and distribution facility for Treasury and a centralized on-line interface with all bureaus and many other Government agencies.

Studies were completed in fiscal 1974 on the FTS intercity voice service confirming that there are no effective administrative control measures to stem the rapidly escalating volume of long-distance calls being placed over the FTS system. The studies show it would be worthwhile for an agency to use an alternate means of intercity calling with more effective control capability in order to compare the two methods.

In fiscal year 1974, Treasury joined the Departments of Justice, Interior, and Transportation in coordination of law enforcement telecommunications planning. The Office of Telecommunications Policy requires that planning in the same mission area which crosses agency lines must be coordinated to avoid duplication and waste. Treasury has initiated action to establish a similar financial or fiscal mission area group.

The Treasury telephone system was expanded by the addition of a 2,000-line subsystem to serve activities relocating to the Post Office Building at 1200 Pennsylvania Avenue. Also, message and data facilities of the Main Treasury Telecommunications Center (MTTC) were expanded to meet an increased workload and changing requirements. Equipment was replaced or modified to provide a more versatile capability, and secure circuits were added to two bureaus.

Energy conservation

With the rapid acceleration of the energy conservation program, new procedures and requirements were implemented to assure a cohesive coordination of departmental objectives. Some problems were experienced in the law enforcement area where it was not operationally feasible to totally accomplish mileage reduction goals.

Paperwork management

The Department established its new Treasury paperwork management program, which seeks to improve each substantive element of paperwork management and use all elements in a coordinated, integrated systems application to operational processes and problems. The program emphasizes improvement of management and operations of the Department through improved paperwork standards and systems, and the generation of savings for use in high priority activities. A newly established Paperwork Management Forum, consisting of the paperwork management officers of all the Treasury bureaus, will provide an excellent vehicle for Department-wide participation in development and execution of the program.

International operations support

Full responsibility for logistical support of international operations including overseas trips and representational functions has been assigned to the Assistant Director for General Services. Treasury's increased role in international affairs has increased the need for support of official receptions and other similar functions.

Safety

Treasury continued to maintain a low disabling injury frequency rate during 1973. The Department's rate, based upon internal reports, was 2.7 injuries per million man-hours worked. This compared favorably with the all-Federal rate of approximately 6.0.

Treasury Historical Association

The first meeting of the Board of Directors and of the membership of the newly established Treasury Historical Association was held on March 8, 1974. The Board elected Mr. Edward C. Schmults, Chairman; Mr. Robert R. Fredlund, President; and Mr. John Verkouteren, Treasurer. Mr. Sid Sanders was designated Executive Secretary. The Board has adopted the Articles of Incorporation and the By-Laws. Former Secretary Shultz has expressed his support toward this new association.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

The Bureau of Alcohol, Tobacco and Firearms (ATF) is charged with regulating four industries—alcohol, tobacco, firearms, and explosives. The Bureau is staffed with 1,600 law enforcement officers who enforce criminal laws relating to those industries, and 800 inspectors, who are regulatory officers.

To accomplish its mission, ATF has 3,700 employees. The primary task of ATF law enforcement officers is in the enforcement of Federal gun control laws, particularly in attempting to keep guns from criminals and would-be criminals.

Traditionally, the Bureau's primary goal was to eliminate the manufacture and sale of illicit liquor, which defrauds the Federal revenue of potential taxes.

During the 1930's, as a result of the misuse of certain types of firearms by the criminal element, Congress passed the National Firearms Act and designated enforcement responsibility to the Internal Revenue Service, Alcohol Tax Unit, the forerunner of the Bureau. Thus, when the Federal Firearms Act, which regulated the interstate commerce in firearms, was passed in 1942, enforcement responsibility was given ATF.

In the 1960's, the assassination of a President, a Senator, and a prominent civil rights leader prompted Congress to pass the Gun Control Act of 1968, which encompassed the National Firearms Act and the Federal Firearms Act and added many controls not contained in the previous statutes. Since then, the primary efforts of ATF have been directed at controlling the flow of firearms to keep them out of the hands of criminals.

A more recent mission originated with the passage of title XI of the Organized Crime Control Act of 1970, which regulates explosives. Regulatory and enforcement jurisdiction of explosives also were awarded to ATF.

During fiscal 1974, the Bureau collected $7.5 billion in excise taxes on alcohol and tobacco products. These taxes are the second largest source of revenue to the United States, following personal and corporate income taxes. This tax administration is the major function of the Office of Regulatory Enforcement.

Criminal enforcement

The Office of Criminal Enforcement intensified its efforts to prevent the flow of firearms and explosives into the hands of criminals by implementing several new programs designed to cut off their sources of supply during fiscal 1974. These included a truck theft reporting program and a program of firearms tracing in selected cities.

In addition, the fight against the manufacture and distribution of illicit whiskey was continued, as was the program of providing assistance to State and local law enforcement agencies in their fight against crime. ATF activities covered a broad spectrum during the fiscal year. ATF solved bombing cases, broke up criminal gun rings, further defeated illicit liquor manufacturers, bottled up sources of firearms destined for Northern Ireland, and broke up gangs of motorcycle-riding felons.

ATF established liaison with several foreign governments and reached agreement with Mexico in firearms matters.

Special agents completed 5,550 prosecutive criminal cases of all types ranging from bombings to felons in possession of firearms; arrested 4,995 persons; seized 4,414 firearms, 4,415 pounds of explosives, and 38,756 gallons of illicit whiskey; and assisted other agencies.

Explosives program.—The Bureau's efforts primarily are directed toward preventing the acquisition and misuse of explosives by the criminal element. Most of the criminal investigations under this program have been of actual or attempted bombings, and investigations of explosives thefts.

In December 1973, ATF and Virginia State Police investigated a bombing in which the Commonwealth Attorney, Montgomery County, Va., was mutilated. A convicted murderer released from prison 5 days before the bombing was arrested.

In October 1973, special agents in Toledo, Ohio, working with local officers, arrested three persons for the theft of 966 pounds of explosives from a storage magazine and recovered almost all of the explosives. The arrested thieves intended to trade the explosives for drugs.

Illicit fireworks plants.—It became apparent in 1972 that the manufacture and distribution of illicit fireworks was becoming a serious national problem. ATF estimates that it is a multimillion-dollar annual business which places illegal and unsafe fireworks in the hands of the public and defrauds the U.S. Government of taxes through unreported income.

In December of 1973, a nationwide program was begun to coordinate information in headquarters concerning trafficking in and the manufacture of illicit fireworks in the United States. Through the explosives laws, ATF exercises control over most fireworks industry activities.

Agents have found that the methods of operation of fireworks violators are much like those of illicit whiskey manufacturers and distributors. The investigations of these violations have much similarity to the investigation of bootleggers. Information obtained from informers and from special agents who have worked on this type of violation indicates that most of the plants are established through a conspiracy of persons who bankroll the operations as well as assist in establishing factories and supplying raw materials and the required expertise.

While the illicit fireworks business is spread throughout the Nation, most of it is centered in the Midwest. One of ATF's more notable cases occurred in Huntley, Ill., when the owner of a fireworks company was charged with unlicensed manufacturing of explosives and with storage violations. In a second case, an illicit plant was seized in an abandoned farmhouse near Richland, Mo. More than 400,000 M-80 casings were seized.

Firearms program.—Criminal enforcement of the Gun Control Act of 1968 is directed at keeping firearms out of the hands of criminals, and providing assistance to Federal, State, and local governments in their fight against crime and violence, two of the stated purposes of the act.

During fiscal 1974, special agents continued to make application and compliance investigations of licensees to assure that business was being conducted in accordance with law and regulations, and that record-keeping by licensees was meaningful and useful. More than 30,000 of these inspections were made. These activities are necessary to prevent criminals from obtaining firearms from licensees, and to permit the successful tracing of firearms.

Project I was launched July 1, 1973, to determine crime gun sources, flow patterns of crime guns nationwide, types of handguns involved in crime, and to provide investigative leads to those firearms dealers and criminals unlawfully obtaining, selling, and using firearms. The project was initiated in New York, Detroit, Atlanta, and New Orleans. For a 6-month period, all handguns found at crimes by the police departments in these cities were traced by ATF, resulting in more than 60 Federal cases being recommended for prosecution.

The tracing of 4,537 guns in the initial phase of this project revealed that 70 percent of the handguns used in crimes in these four major eastern cities were low caliber, inexpensive, small handguns, the so-called "Saturday Night Specials."

In February 1974, the project was extended to Oakland, Kansas City, Denver, and Dallas. In fiscal 1975, the project will encompass Philadelphia, Minneapolis-St. Paul, Seattle, and Dade County, Fla.

Under the interstate firearms theft reporting program, common carriers are requested to report all thefts and losses of firearms shipments to ATF. The program began on a nationwide basis September 1, 1973, and is intended to eliminate firearms shipments as another source of firearms for criminals. During fiscal 1974, 820 theft or loss reports involving approximately 7,600 firearms were made to the Bureau. ATF, working alone or in conjunction with other agencies, recovered 900 of these. More than 500 firearms were found to have been lost and subsequently were located by the carrier. ATF prepared 15 criminal cases involving 26 defendants. Seventeen defendants were employed by the carrier.

In addition to the concerted effort to trace firearms under Project I, the Bureau continued its task of tracing firearms used in crimes through the ATF National Firearms Tracing Center. The traces are performed by personnel in the Technical Services Division and by field special agents generally at the request of local police. More than 17,000 traces were completed successfully during the fiscal year, with requests for traces up 160 percent from the previous fiscal year. Many traces are instrumental in the solution of serious crimes, such as murder, robbery, and burglary.

The recurring illegal exportation of firearms, ammunition, and explosives from the United States to Mexico has created serious problems for both Governments. ATF has attempted to cut off this flow since 1970. The approach has been to identify, prosecute, and revoke licenses of those firearms dealers involved in gunrunning on the Mexican border.

At an international traffic-in-arms conference held in Mexico City in March 1974, Customs and ATF personnel and the Attorney General of Mexico reached an agreement to share intelligence to curtail this illegal exportation. Intelligence sources have indicated that many of the exported weapons are exchanged for narcotics, which then are smuggled into the United States. ATF is closely associated with the Customs Service in these investigations. A 3-month investigation late in 1973 resulted in the arrest of a Nicaraguan national and seizure of 66 M–1 carbines at the international border near San Ysidro, Calif., and Tijuana, Mexico. The subject and five other Nicaraguans were attempting to move the firearms to Nicaragua.

The disorder in Northern Ireland has caused British authorities to request ATF assistance in attempting to stop the shipment of firearms from the United States to Northern Ireland. Besides tracing many firearms seized by British authorities, ATF agents have successfully completed several criminal investigations resulting in prosecution of Irish Republican Army sympathizers. In one case, six IRA suppliers were arrested by ATF special agents for illegally transporting 70 Colt AR–15 semiautomatic rifles from Maryland to New York. These persons were indicted on April 2, 1974, on 23 counts charging various violations of the Gun Control Act. In May 1974, the defendants were convicted for conspiring to illegally purchase and ship 158 AR–15 rifles to the IRA.

ATF is involved in similar projects in Jamaica and Haiti, having been requested to furnish assistance in stopping the export of firearms to those countries. ATF representatives attended a conference in Jamaica in April 1974 with the U.S. Customs Service and the Drug Enforcement Administration. Plans were made to include Jamaica in Project I. Between April and June 1974, the first trace requests were received from the Jamaican police.

Illicit liquor program.—During fiscal 1974, a total of 95.401 man-days were devoted to illicit liquor enforcement, resulting in the seizure of 1,254 illicit distilleries, 673,756 gallons of mash, and 38,756 gallons of illicit liquor. These investigations resulted in 1,599 arrests. These enforcement actions averted a tax fraud against the Federal Government of $7.5 million.

Despite a gradual decline in illicit liquor traffic, ATF agents have found the modern bootlegger to be sophisticated and engaged in interstate conspiracies involving long-distance distribution.

Legal liquor enforcement program.—Most investigations and inspections of the legal liquor industry are conducted by Regulatory Enforcement. However, when criminal violations are involved, the

Office of Criminal Enforcement joins Regulatory Enforcement in a joint investigation. Such an investigation of liquor wholesalers in Maryland, completed in late 1973, revealed that during a 2-year period, 13 major wholesalers in Maryland disposed of approximately 51,500 gallons of liquor without records of disposition.

State assistance.—ATF agents have close relationships with State and local law enforcement officers. ATF traced guns for 2,000 State and local law enforcement agencies in fiscal 1974. There are more requests for assistance in explosives investigations as they become more aware of ATF expertise and availability. Many cases are worked by ATF alone or side-by-side with local officers.

ATF provides training to local police departments in various phases of law enforcement and in ATF functions and availability. Financial assistance is provided by the Law Enforcement Assistance Administration.

When information is revealed during an investigation concerning another crime under the jurisdiction of another agency, special agents make referrals to that agency. During fiscal 1974, ATF made 9,669 such referrals.

Typical of ATF assistance to other law enforcement agencies is a case in Tennessee. ATF, which was involved in an undercover investigation, learned that a large number of stolen gambling machines were available for sale. Working with two city police departments and the FBI, ATF arranged the purchase of 50 of the stolen machines and used an ATF aircraft to locate the storage place of 100 more stolen gambling machines and other stolen property, which was seized by the FBI, accompanied by ATF special agents.

In Dallas, Tex., ATF undercover agents purchased a quantity of firearms from a convicted felon and were asked by him to join in an armed robbery of the residence of a Dallas auto dealer, who kept a $100,000 coin collection at his residence. On the day of the attempt, four persons were arrested by ATF agents and Dallas police officers waiting at the auto dealer's home.

In a referral, special agents discovered during a firearms investigation that the subject of the investigation was wanted for the attempted murder of a police officer. His current address was furnished to the local police, and he was apprehended and charged.

Other enforcement activities.—Several major objectives were reached in fiscal 1974 in the Bureau's anti-organized-crime efforts. Representatives continued to be assigned to strike forces in 17 metropolitan areas although supervision was decentralized. Strike force representatives were assigned to the Southeast and Southwest Regions to insure coordination of organized criminal activities in those regions. Field personnel have accelerated referrals of intelligence relating to significant organized criminals to the Department of Justice centralized intelligence network.

ATF published its definition of organized crime as: "Any large continuous criminal activity which has significant impact upon a community, region or an area of our country." This definition has enabled the Bureau to target significant groups of violators of laws enforced by ATF.

The Bureau's enforcement efforts directed at the possession and misuse of firearms and explosives by outlaw motorcycle gangs are centered in Operation OMEGA. This program began in February 1973, with the intent that ATF field offices would apprehend and prosecute individual members of outlaw motorcycle gangs violating ATF-enforced laws. In fiscal 1974, all available criminal intelligence on outlaw gangs was collected and transmitted to headquarters for evaluation and appropriate dissemination to field offices and other concerned agencies.

During fiscal 1974, more than 400 outlaw motorcycle gangs with a total membership of approximately 4,500 persons were identified. Numerous arrests of officers and gang members were made, including identifiable organized crime subjects having illicit business affiliations with gang members. Extensive intelligence collected on the high incidence of narcotic trafficking by OMEGA targets was referred to the Drug Enforcement Administration.

In May 1974, ATF seized 64 firearms in Dayton, Ohio, from the owner of a motorcycle parts business who deals with outlaw motorcycle gangs. This person previously was convicted of firearms violations that involved the seizure of more than 300 firearms by ATF.

In a Massachusetts case, a member of an outlaw motorcycle gang purchased 12 shotguns and rifles with ammunition, making false statements to a licensed dealer when he did so. In May 1974, ATF agents arrested this person and seized the 12 firearms and the ammunition at his residence.

Treasury enforcement communications system (TECS).—In December 1972, the Bureau joined other Treasury enforcement agencies to form TECS, a nationwide communications network linking all Treasury enforcement terminals. The system contains a data base ATF utilizes as a central summary index, referring queries to all available intelligence files related to any subject.

By October 1973, ATF established a data base of sufficient size to support its field offices. ATF entered 28,218 records into TECS during the fiscal year which included: All persons and corporations granted or denied relief from Federal disabilities regarding firearms and explosives, major traveling criminals, gun-tracing information, significant and sensitive investigations, an authentication-locator file for all ATF employees, and location data on all explosives incidents in the United States.

ATF had made 117,153 queries of the TECS data base by the end of the fiscal year. In fiscal 1975, all Federal Alcohol Administration Act permittees, National Firearms Act special occupational tax stamp holders and firearms registrants, and Mutual Security Act registrants will be entered. The TECS system contains appropriate access controls to prevent any unauthorized disclosure.

Programs planned for fiscal 1975.—A new Bureau program, the significant criminal program, will be implemented in fiscal 1975. This comprehensive and selective enforcement program will establish criteria for identification of firearm and explosives violators who present the greatest immediate threat to society on a local and district basis. Once these major criminals are directly identified, ATF will concentrate its efforts toward their apprehension and will assist State and local agencies toward the same goal.

The changing priorities of ATF law enforcement, due to the responsibilities designated in the Gun Control Act of 1968, the Omnibus Crime Control and Safe Streets Act of 1968, and the Organized Crime Control Act of 1970, have dictated a change in investigative techniques.

In the past, undercover activity, an integral part of the majority of ATF investigations, has been handled locally. A new tactical support program will be instituted to identify, select, and train special agents who have a capability and desire for undercover work. These men will then be assigned to assist other field agents when a highly trained undercover agent is needed.

Regulatory enforcement

Through the Office of Regulatory Enforcement, the Bureau collected more than $7.5 billion in taxes on distilled spirits, beer, wine, and tobacco products during fiscal 1974. Regulatory Enforcement took the lead in major Bureau projects dealing with metrication of wine and distilled spirits containers, changes in supervision of distilled spirits plants, and ingredient labeling for alcoholic beverages. These projects, together with the assumption of firearms and explosives inspections formerly conducted by Criminal Enforcement, and changes in regulatory requirements for distilled spirits plants records and reports, have added new dimensions in public accountability and efficiency.

Revenue protection.—In fiscal 1974 the Bureau undertook a study of the laws and regulations governing the legal liquor industry. The purpose was to find a way of eliminating requirements for the Federal Government to maintain joint custody with the distilled spirits plant proprietor of untaxpaid spirits stored in bonded premises. Complete elimination of the joint custody concept will require changes in the law, and the Bureau has developed proposals for Government supervision by regulation, leaving such regulation to the discretion of the Bureau. However, the Bureau can, under the present law, make certain changes that would soften the joint custody concept and allow savings to the Bureau of 27 man-years in supervision duties at plants.

During fiscal 1974, the Bureau fully implemented a records and reports simplification program dealing with production and warehousing of distilled spirits. The Bureau plans to implement a similar simplification program for distilled spirits plants records and reports dealing with taxpaid bottling and statistics in fiscal 1975.

The Bureau approved alternate denaturants because of energy crisis-related shortages of petrochemicals needed for industrial alcohol production and denaturation. In addition, the Bureau approved the recovery of denatured alcohol by other than original users. As a result of these measures and numerous spot approvals of other methods of operations, the projected negative effects of the energy crisis were softened, and many domestic industries dependent on industrial alcohol have continued to operate.

Trade practice enforcement.—The Bureau made a concentrated effort in training inspectors in detection of unfair trade practice violations and development of cases. ATF accepted a total of $477,500 in offers in compromise for trade practice violations of the Federal Alcohol Administration Act in lieu of taking criminal or civil actions. In some instances, operating permits were suspended.

Consumer protection.—Because of consumer interest and with the cooperation of the Food and Drug Administration, the Bureau plans to issue in fiscal 1975 regulations to require that ingredients used in the production of alcoholic beverages appear on the labels.

Although the alcoholic beverage industry generally seeks to keep its advertising profile low key and reserved, some industry members believe they should be allowed to advertise in the same manner as soaps, soft drinks, automobiles, and other consumer products. In the active and often controversial area of advertising, the Bureau has noted during fiscal 1974 more money that is being spent on advertising campaigns directed at young adults and college students, particularly in the advertising of wines, pop wines, and malt beverages. The Bureau stops or tones down campaigns which use themes relating to sex, sensualism, drugs, and themes subject to ribald humor. In fiscal 1974, the Bureau accepted a total of $14,500 in offers in compromise for unfair advertising violations of the Federal Alcohol Administration Act, in lieu of taking criminal or civil actions.

ATF specialists processed approximately 900 formula applications for rectified beverage products and 300 formula applications for wine products. The formulas are reviewed for completeness and compliance with regulations promulgated under the Internal Revenue Code (26 CFR), the Federal Alcohol Administration Act (27 CFR), and the Federal Food, Drug and Cosmetic Act (21 CFR). The Bureau was particularly interested in formula submissions for the production at distilled spirits plants of wine-based alcoholic beverages containing less than 7 percent alcohol by volume with added water and flavorings, which may generate a new product classification.

More than 65,000 alcoholic beverage labels for distilled spirits, rectified distilled spirits, wines, wine products, beer, and other malt beverages were received and processed in fiscal 1974. The Bureau formulated a written record of administrative policies and definitions for appellations of origin, varietal designations, estate and chateau bottling, and in viticultural areas for wines.

In April 1973, representatives of the alcohol beverage industries conferred with ATF about the possibility of adopting metric sizes for containers. The consensus was that U.S. industry should adopt international sizes rather than metrication of our present sizes, and that such conversion would benefit international trade.

A public hearing on proposed regulations to require metric sizes for wine and to establish standard case sizes was held on June 11, 1974. The Bureau plans to publish final regulations and implement the wine metrication proposals during fiscal 1975. It also plans to conduct a public hearing on distilled spirits metrication proposals, and to implement the proposals in the latter part of fiscal 1975.

Environmental protection.—Because the Bureau is responsible for participation in enforcement of environmental legislation with the Environmental Protection Agency and the Council on Environmental Quality, it developed a handbook for Bureau personnel to be followed in carrying out ATF's responsibilities under the National Environmental Policy Act of 1969 and the Federal Water Pollution Control Act, as amended.

Firearms and explosives.—Prior to fiscal 1974, the firearms and explosives inspection programs were principally the responsibility of

Criminal Enforcement. When this program is fully implemented in fiscal 1976, Regulatory Enforcement will be required to complete approximately 31,000 application inspections and an estimated 51,000 inspections yearly to verify compliance with the law and regulations dealing with firearms and explosives.

Data processing.—There are approximately 169,000 firearms licensees and 5,000 explosives licensees and permittees. During fiscal 1975, the Bureau plans to develop ADP programs to be used in conjunction with firearms licensee and explosives permittee registers. A significant benefit of such programs would be the production of licensee and permittee mailing tapes from the data bank of the ATF computer.

Tobacco products.—The little cigar-cigarette situation was resolved by ATF which issued a ruling to update criteria for determining whether a tobacco product is a cigar or cigarette for tax purposes. This ruling also clarified marking requirements for packaging material for small cigars, and provided for examination of marketing material and advertising to assure the product is clearly presented to the consumer as a cigar and not as a cigarette.

Technical and scientific services

ADP services.—The IRS Data Center in Detroit continued to support ATF in preparing ATF paychecks and maintaining a property inventory control through the property accountability and recording system. The Data Center brought to operational capability the management information system for criminal enforcement cases.

The IRS service centers continued to provide address tapes for all firearms dealers licensed by ATF. Minor support in other areas is provided by GSA.

With the acquisition of the remote job entry (a terminal to connect to the computer center in the Office of the Secretary), ATF will begin in fiscal 1975 some of its ADP functions. Planning and systems development are designed to provide ATF an operational ADP system by fiscal 1979.

Technical services.—The Bureau is responsible for registering importers and controlling the importation of all implements of war under the purview of the Mutual Security Act of 1954. ATF is also responsible for acting on applications to import firearms and ammunition under the Gun Control Act of 1968. During fiscal 1974, 19,383 applications were approved and 534 were disapproved. The disapproved applications included 36,705 firearms valued at more than $1.5 million.

ATF maintains a firearms reference collection of more than 3,000 different models of firearms, which serves as a research and reference library for the Bureau and other Federal agencies. The collection is used to make comparison studies in preparing for court testimony; make import determination, e.g., whether or not a firearm is designed chiefly for sporting purposes; assist in the search for serial numbers of firearms and to identify brands for traces; provide instruction in firearms identification; and to make curio and relic determinations.

ATF exercises control over the importation, exportation, registration by State and local government entities, manufacture and transfer between owners of all devices described as nonsporting weapons such as short-barreled shotguns and rifles, machineguns, bombs, and grenades. ATF also maintains the National Firearms Registration and

Transfer Record, which is the control file for these weapons. This registry provides the information needed to support Criminal Enforcement activities and provide expert court testimony. A total of 2,920 certifications were prepared during the last year to be used as documentary evidence in investigations of possible criminal violations involving NFA weapons.

The ATF National Firearms Tracing Center traces firearms from the manufacturer or the importer to the wholesaler to the retailer to the first retail sale. In fiscal 1973, 12,709 trace requests were received from ATF agents, State and local law enforcement agencies, and other Federal agencies. During fiscal 1974, 30,995 traces were requested of which 18,005 (58 percent) were from State or local agencies.

Support of investigations by State, local ATF and other Federal agencies is provided by the explosives tracing program. During fiscal 1974, 48 investigations for State and local agencies and 301 ATF Federal investigations were supported by explosives traces.

Criminal bombings in recent years have made the misuse of explosives a major national problem. Within the last 2 fiscal years, ATF agents participated in more than 1,200 explosives investigations, and the ATF laboratory analyzed evidence from more than 2,000 explosives cases.

At present, there is no means to trace explosives once they are removed from their original containers or from their residue after detonation. As a result, ATF initiated an explosives tagging program. This is an 18-month development program which will be fully implemented as funds become available. ATF is coordinator of all U.S. efforts in this program and is providing administrative support. Eight foreign countries have expressed interest in participating in the program once the technique has been developed.

ATF provides the public with a variety of technical pamphlets and publications relating to alcohol, tobacco, firearms, and explosives. Information contained in these publications involves the public's rights or duties, industry regulations, and new interpretations and positions taken by ATF. These publications include The Explosives List, the Monthly and Cumulative ATF Bulletin, Published Ordinances Firearms, and Questions and Answers concerning the Gun Control Act.

Scientific services.—ATF laboratories provide technical and scientific support to the Bureau with the laws and regulations administered by ATF. In addition, the laboratories assist without charge any requesting State and local law enforcement agency.

ATF Scientific Services has the Nation's most complete ink library which includes more than 3,000 domestic and European ink standards. This ink library is used to identify and date inks on questioned documents.

ATF firearm and toolmark examiners, involved actively in the Bureau's law enforcement efforts, annually complete about 200 cases.

ATF laboratories also offer a wide range of document examination services such as handwriting identification, typewriting identification, watermark examinations, and deciphering obliterated writing. During fiscal 1974, more than 1,100 cases, including more than 29,000 documents, were processed.

ATF continued in the forefront in the development of voiceprint.

The headquarters laboratory voice identification program is presently processing about 70 cases annually.

The photography laboratory handles both still photography and sound motion picture photography. A sound motion picture of the signing of the U.S.-U.S.S.R. trade agreement was made by ATF and presented by the Secretary of the Treasury to a Russian diplomat as a gift.

ATF Laboratory personnel pioneered the use of neutron activation analysis in forensic crime work. This system was used to process 1,200 such cases in fiscal 1974 as a service for local law enforcement agencies. A new method, the technique of flameless atomic absorption analysis of gunshot residue, was initiated in fiscal 1974. This method increased the speed of analysis fourfold over neutron activation.

In January 1974, the ATF headquarters laboratory began a program of serological testing to augment its present trace evidence analysis capabilities. From a caseload of 10 cases per month, requests for examinations are expected to reach several hundred per year by fiscal 1976.

For fermented beverages (wines and beers), ATF Laboratory personnel check the fill of containers, proof, additives, and presence of harmful ingredients such as lead in canned alcoholic cocktails. Imported wines are examined to assure that overcarbonated wines are taxed at the champagne rate. A check is made to determine that colors used in alcoholic beverages are those authorized by the Food and Drug Administration, that products containing artificial flavors are so labeled, and that alcoholic beverages are properly labeled as to content.

ATF is responsible for regulating denatured alcohol articles (toilet preparations and industrial alcoholic products). ATF assures that a product is properly labeled to indicate its point of origin, and that articles containing alcohol contain sufficient ingredients to protect them from recovery as beverage alcohol.

Tobacco is examined for tax purposes to distinguish between cigars and cigarettes, and to protect consumers by proper labeling. Lubricants, filled cheeses, and other miscellaneous articles are examined for tax classification for IRS.

Office of Inspection

Once ATF became a Bureau in July 1972, the Bureau established its own Office of Inspection which became fully operational during fiscal 1974. The Office of Inspection is charged with four significant areas of responsibility: Protecting the integrity of the Bureau, reviewing all operational activities within the Bureau, auditing the Bureau's fiscal posture, and implementing the Bureau's security program.

Integrity investigations.—The image of the Bureau charged with the enforcement of Federal alcohol, tobacco, and firearms laws must be above reproach. Thus the Office of Inspection has the responsibility to conduct investigations of all allegations or evidence of wrongdoing on the part of Bureau personnel.

The Office conducted 79 integrity investigations during fiscal 1974. Of that number, 27 were cleared of any misconduct, and 52 investigations resulted in a basis for criminal prosecutive action or administrative disciplinary action.

Operations review.—Inspection is responsible for monitoring the operations of all Bureau programs, offices, and activities. To insure the uniform and efficient functioning of these operations, emphasis is focused on general compliance with established policies, procedures, and guidelines, with maximum utilization of available manpower, equipment, and fiscal resources; and the impartial enforcement and administration of existing laws and regulations. These responsibilities are discharged through the development and implementation of a continuing program of scheduled and unscheduled evaluations of every organizational entity within the Bureau.

To accomplish this, Inspection utilizes standard audit and analysis procedures in the review and evaluation of all Bureau programs, offices, and activities including spot checks, random sampling, interviews, and verification through outside sources. The basic technique is to make a comprehensive study of all facts of the operational area being reviewed, including management controls over the operation.

Twenty-three reviews were conducted during fiscal 1974 in the areas of criminal enforcement, regulatory enforcement, and administration. The reviews consisted of onsite visits and interviews throughout the Nation. The findings of these reviews were used by management to assess activities and initiate corrective action wherever necessary.

Internal auditing.—Internal Audit of the Office of Inspection, as an integral part of the management control system of the Bureau, has the responsibility for determining that controls established over the operations are efficient and effective, that policies and procedures are being carried out as laid down and serve their intended purpose. Particular emphasis is placed on determining if expenditures are made only to further authorized activities and in accordance with applicable laws and regulations, and whether revenue and receipts arising from Bureau activities are collected in full and properly accounted for.

Security.—The Bureau employs 1,600 employees in the GS–1811 criminal investigator series and a lesser number of support personnel (technical and clerical) in the critical-sensitive category as defined in Executive Order 10450. This contains specific instructions regarding preemployment background investigations and the implementation of a security update program for onboard employees to insure that employment of any person in these categories is clearly consistent with the national security. During fiscal 1974, 326 security and security update investigations were completed.

OFFICE OF THE COMPTROLLER OF THE CURRENCY [1]

The National Banking Act of 1863 established the Office of the Comptroller of the Currency as the Administrator of National Banks. The Comptroller, in assuring the solvency and liquidity of

[1] Additional information is contained in the separate Annual Report of the Comptroller of the Currency.

some 4,600 national banks, is responsible for the execution of laws concerning them, and to this end he promulgates rules and regulations governing their operations. Although he fashions controls to permit bankers to respond flexibly to a changing economy, the banks must submit to periodic examinations, carried out nationwide by a staff of approximately 1,850 bank examiners. These examinations serve to assist the Comptroller in appraising the financial condition of the banks, the soundness of their operations, the quality of their management, and their compliance with laws, rules, and regulations.

The banking industry has experienced rapid and profound changes in recent years. The barriers to statewide and even nationwide banking are falling. Commercial banks are becoming financial conglomerates, and are spreading out both geographically and in terms of services provided to their customers. Tremendous asset growth, widespread structural changes, new banking legislation, and greater sophistication in asset and liability management have all resulted in a new and complex challenge both for the Office of the Comptroller of the Currency and for the individual bank examiner.

In light of the fact that neither the examination process nor the international operations of the Comptroller of the Currency have been comprehensively reviewed throughout the 110-year history of the Office, and that past procedures may not be applicable to present needs, the Comptroller has selected, from proposals submitted at his request, the accounting firm of Haskins and Sells to initiate a complete examination of all bureau practices and procedures. The study is expected to be completed by June 1975, and its results will enable the Comptroller to improve the quantity and quality of services provided to the public and to the national banks and ensure that these services are relevant to today's needs.

A second result of the banking changes taking place today has been the bureau's increased demand for commercial and trust examiners, economists, international banking specialists, and attorneys. This growth in employment has emphasized the bureau's need for more suitable space. Administrators have long recognized the need to consolidate the offices, presently scattered throughout three separate buildings, into more adequate facilities. Space was secured in the newly completed east building at L'Enfant Plaza, in the District of Columbia, and administrative officials dedicated much of their efforts during the year to supervising space improvements there. One group, the Supply, Printing and Services Branch, relocated to the new building in April 1974, and the remaining staff was scheduled to move in mid-August 1974.

Planning toward increasing automation of bureau operations was advanced by an agreement for use of the Univac 1108 computer of the Office of Computer Science. The computer will provide highly increased capability to use the mass of banking data available and give timely information to the Comptroller for use in the regulatory function.

In a move aimed at uncovering incidences of discrimination in residential mortgage lending, the bureau, in conjunction with the Federal

Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Federal Home Loan Bank Board, instituted the fair housing lending practices pilot project. The project, running from June 1974 through November 1974, will explore the feasibility of using different recordkeeping and reporting methods to uncover discriminatory practices. The project covers 18 standard metropolitan statistical areas (SMSA's) across the country, divided into three groups, each using a different recordkeeping and reporting method. The results will determine whether the project is expanded to nationwide scope.

The information services program continues to make the policies and procedures of the Office of the Comptroller of the Currency better known and to facilitate communications throughout the Office, the banking community, and the general public. Standard 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. A directory is published which contains the address and telephone number of every decisionmaking official in the Office, together with a picture and biographical sketch. The Annual Report of the Comptroller of the Currency contains a general statement of policy, descriptions of the state of the national banking system, of bureau operations, and reprints of selected bureau documents relating to crucial public issues in banking.

During fiscal year 1974, considerable progress was made in recruiting and training bank examiners. Over 75 percent of the Comptroller's 1974 goals for increasing the number of minority and women examiners to 215 and 280 were met by June 30, 1974. Cross-regional college campus visits and a 33-percent increase in financial interns helped achieve more effective equal employment opportunity and upward mobility programs. An evaluation of the training needs of new examiners and financial interns in all regions resulted in a training package consisting of a new orientation program, bank examination training teams, and 2 weeks of formal classroom teaching. Examiners supervisory training in the areas of motivation, communication, and interpersonal relationships was carried out by an outside consultant. Ten employees exhibiting a high potential for executive assignment were selected for the executive development program. The bureau has been contacted by two unions; however, exclusive recognition has not yet been given.

Although there were no major developments in the financial reporting system during the year, automation of some subsidiary accounting records which previously had been manually prepared resulted in more efficient operations. The automated record of total branches was fully implemented, significantly reducing the time expended in auditing the branch assessments paid by national banks.

Employee travel was an area which took on increased importance during fiscal 1974. Some travel allowances were raised in response to increased travel costs, and revised travel regulations were issued to all employees. The energy shortage presented problems to both the national bank examiners and the Washington headquarters staff. As a fuel conservation measure, employees were encouraged to perform accompanied automobile travel wherever possible. The response to this request has been exceptional, and the energy savings have been significant.

The Comptroller's investment portfolio, administered by the Fiscal Management Division, continued to be a major source of operating funds throughout fiscal 1974. The investment policy has been and remains one of keeping all available funds fully invested to maximize interest revenue, thereby defraying the cost of operating the bureau to the greatest possible extent.

OFFICE OF COMPUTER SCIENCE

The Office of Computer Science (OCS) was established in April 1973. The Office furnishes computer and related support to the analytical, policy formulation, accounting, and administrative functions of the Office of the Secretary, Bureau of the Public Debt, and the Office of Revenue Sharing. It assists in computer development work for bureaus that do not have their own computer facilities, and provides central management review, approval, and guidance functions for ADP management planning, policy, and procurement throughout the Department.

In fiscal 1974, the Department used 132 computer systems, expended 25,200 man-years, and obligated $306 million in its automatic data processing operations. These resources continue to provide such benefits as improved tax administration, support for implementation of general revenue sharing, enhanced debt management and payment systems, revenue collection, and enforcement and protective intelligence functions.

To strengthen and augment management, analytical, and operational capability, the Office recruited a multidisciplined staff. The present staff consists of 40 analysts, programmers, computer technicians, and clerical personnel. During fiscal 1974, the Office acquired a large-scale, general-purpose computer, completed staffing for the computer operation, and saw use of the computer grow more than 100 percent in the past 6 months.

During the year the Office has actively pursued its relationships with all offices and bureaus of the Department. A major resource effort is being devoted to supporting the Internal Revenue Service in the development and implementation of its long-range and interim ADP plans.

It has been engaged in several major tasks with the Customs Service, particularly with regard to the early implementation phase of that bureau's automated merchandise processing system and an overall requirement for increased ADP capacity.

OCS staff has been working closely with the Bureau of Engraving and Printing to identify, develop applications for, implement, and staff a data processing capability. A number of computer applications implemented have resulted in significant cost savings, improved schedules, and more efficient operations.

The Office has been particularly active with the Office of Tax Analysis in developing or acquiring large-scale tax simulation models and implementing and maintaining them on the OCS computer.

Significant milestones were achieved with the transfer of the Office of Debt Analysis and Office of Revenue Sharing workloads from private sector computers to the OCS system. The transfer was accomplished on schedule with a minimum of interruption of service.

A cost center report was selected as the pilot program for the Financial Management Division. The success of this system was demonstrated via remote terminal inquiry.

Other significant activities have been taking place between OCS staff and other Department entities as well as with other agencies. A few examples are: A project to support the Office of Industrial Economics survey of asset depreciation; contributions to the analytical and data processing support of the Federal Energy Administration; analysis and development of a classroom, student, teacher scheduling system for the Consolidated Federal Law Enforcement Training Center; development of a file and listing of the results of the carpool questionnaire; and establishment of a technical information exchange on data processing between the Department of Housing and Urban Development and OCS.

CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

The Consolidated Federal Law Enforcement Training Center (CFLETC) is an interagency training facility formally established as an entity within the Department of the Treasury on March 2, 1970. It is under the supervision of the Assistant Secretary (Enforcement, Operations, and Tariff Affairs).

The Department of the Treasury serves as the lead agency for the operation of the Center and, as such, controls the Center's day-to-day activities. A Board of Directors, comprised of representatives at the Assistant Secretary level from the major departments which have agencies participating in the Center and on which there are nonvoting members from OMB and the Civil Service Commission, determines CFLETC training policy, programs, criteria, and standards and resolves conflicting training requirements.

The CFLETC conducts common training (i.e., that given to the personnel of more than one agency) and furnishes facilities for the participating agencies to conduct advanced, inservice, refresher, and specialized training for their own law enforcement personnel. At present, 24 agencies from 10 executive departments and independent Federal agencies participate in Center programs. In fiscal 1974, the

Department of Transportation (FAA National Capital Airports Police) was added as a participating agency. The Center also has furnished training on a space-available basis to personnel from 15 other Federal, State, and local agencies.

The Center provides administrative and educational support and 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.

Police School

In the Police School's second year of operation, participation was increased by the inclusion of the U.S. Forest Service of the Department of Agriculture, the FAA National Capital Airports Police of the Department of Transportation, and the Federal Protective Service of the General Services Administration. The greatest input again came from the Departments of Justice, Interior, and Treasury due to their large police contingents. Although the projected student input in fiscal 1975 is nearly double the 408 officers who were graduated in fiscal 1974, cuts in the requested appropriations of presently participating agencies may limit the number of trainees those agencies can send to the Center.

In addition to its basic program, the Police School provided staff training assistance to the Agency for International Development, the U.S. Customs Service, and the Departments of State and Interior; developed and administered an advanced, inservice, refresher training program for the Smithsonian Institution; and rendered advisory assistance to the Canadian Government in the development of a consolidated training center for its security personnel.

Criminal Investigator School (CIS)

In fiscal 1974, the Criminal Investigator School trained 524 agents in 13 classes in its basic course; one-fifth of these were from non-Treasury agencies. In addition, 60 enforcement personnel received advanced law enforcement photography instruction. With this reduced student load, the CIS could devote time to revising its student evaluation system, developing new training aids and course materials, and making extensive revisions in several major subjects. In collaboration with the Center's educational support staff, the school produced several motion picture training films and slide presentations, which will greatly enhance the quality of instruction.

Driver training program

The Center's driver training program, given to all trainees in the Police School, includes basic vehicle handling, defensive driving, and handling of vehicles under conditions of low friction between tires and road. Personnel whose duties will make use of it are also given training in high-speed pursuit driving. In addition, training is given as needed in the operation of motorcycles, motor scooters, and other specialized police vehicles. Twice a year a 2-week instructor's course on the program is provided for State and local police. In fiscal 1974, 1,839 officers were trained at temporary ranges at the Beltsville airport.

Operation of the driver training program, originated by the U.S. Park Police, has been progressively absorbed by the Center. In fiscal 1974, the Center assumed responsibility for administration of the program and its administrative costs, plus a part of the personnel costs. In fiscal 1975, the Center will assume the full cost of the program. Instructor personnel are drawn from the U.S. Park Police, which assigns them to CFLETC on a reimbursable detail.

Management improvement

As part of the departmental program, the Center conducted an analysis of its existing paperwork management. Subsequently, it established a formal system of Center orders, circulars, and bulletins, and organized its systems and procedures into an administrative manual.

Analysis of the Center's training schedules produced a "lock-step" method of scheduling classes which allows the Center to utilize automatic data processing to make more efficient use of its present facilities and personnel. Further development of this ADP model will increase the Center's ability to consider alternatives in scheduling and to study the impact of alternatives on facilities and manpower.

Physical facilities

During fiscal 1974, the Center expanded its facilities at 1310 L Street by approximately 8,400 square feet, enabling the Center to create a second gymnasium for training in physical defense and arrest techniques, a women's locker room and shower, a material distribution area, mock courtrooms, a computer terminal installation for training purposes, and space for other specialized training.

On July 23, 1973, the Court of Appeals for the District of Columbia enjoined further construction of the Center's permanent facilities at Beltsville, Md., while it considered the appeal of plaintiffs from the order of the District Court dismissing the action filed under the National Environmental Policy Act to prevent completion of those facilities. On May 8, 1974, the Court of Appeals handed down a per curiam order affirming the decision of the District Court dismissing the action. Although plaintiffs have filed a motion for rehearing en banc, it is improbable that the court will grant the motion and it appears that the legal restraint on the completion of the Center's permanent facilities at Beltsville has been removed.

However, because costs for completing the facilities had risen so much during the period of almost 2½ years that construction was delayed by this NEPA suit, it was necessary to seek an increase in the total funding authorized. Consequently, a revised prospectus covering the expenditure of $74.4 million was submitted to the Public Works Committees of the House and Senate on June 28, 1974.

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, 1973, there were 94 derogatory information cases pending in the Office under active review and evaluation, 6 of which were awaiting presentation to or decision by an administrative law judge. During the fiscal year, 116 cases were added to the case inventory of the Office. Disciplinary actions were taken in 73 cases by the Office or by order of an administrative law judge. Those actions were comprised of 2 orders of disbarment, 30 suspensions (either by order of an administrative law judge or by consent of the practitioner), 37 reprimands, and 4 resignations. The actions affected 14 attorneys, 23 certified public accountants, and 36 enrolled agents. Fifty-two cases were removed from the Office case inventory during fiscal 1974 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, 1974, there were 85 derogatory information cases under consideration in the Office.

During the fiscal year, one certified public accountant and one enrolled agent 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 Commissioner of Internal Revenue of an application for enrollment to practice before the Internal Revenue Service. The decision affirmed the denial.

Eight administrative proceedings for disbarment or suspension were initiated against practitioners before the Internal Revenue Service during fiscal 1974. Together with the 6 cases remaining on the administrative law judge docket on July 1, 1973, 14 cases were before an administrative law judge during the year. Two of those cases resulted in the acceptance of an offer of consent to voluntary suspension and one in the acceptance of an offer of resignation 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 two cases, 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 four cases. On June 30, 1974, five cases were pending on the docket awaiting presentation to or decision by an administrative law judge.

Under authority of 31 CFR, section 10.71, two cases resulted in appeals to the Secretary from initial decisions for suspension or disbarment rendered by an administrative law judge. In one of those cases, the decision on appeal was an affirmation of the order for disbarment. As of June 30, 1974, the other appeal was pending with the Secretary. In addition, one decision was issued by the Secretary on an appeal from the initial decision of an administrative law judge pending on July 1, 1973. In that appeal, the administrative law judge's order of suspension was affirmed.

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.

Gold regulations

Public Law 93-110, enacted September 21, 1973,[1] provides for an end to Government restrictions on the purchase, sale, or ownership of gold at such time as the President reports to Congress that this action would not adversely affect the U.S. international monetary position. Until this finding is made, Treasury regulations governing the private ownership and use of gold remain in effect.

Use of gold for industrial purposes

Estimated net industrial use of gold in the United States during the calendar year 1973 was 6,729,000 ounces, a decrease of 8 percent from the previous year. The 1973 decrease in industrial gold purchases was due mainly to a decline in the production of jewelry products reflecting an increase in the price of gold. The average price of gold per fine troy ounce increased in 1973 to $97.34 from $58.16 in 1972. The estimated total purchases of gold and allocation of purchases by industry group for the years 1968-1973 are shown in table 1.

TABLE 1.—*Estimated industrial use of gold in the United States, calendar years 1968-73*

[Thousands of fine troy ounces]

	1968	1969	1970	1971	1972	1973
Estimated total purchases of gold by U.S. industry	6,604	7,109	5,973	6,933	7,285	6,729
Converted into fabricated products	6,073	6,568	6,148	6,542	7,253	6,638
Increase in inventories	531	541	−175	391	32	91
Allocation of purchases by industry group	6,604	7,109	5,973	6,933	7,285	6,729
Jewelry and arts	3,908	3,839	3,340	4,299	4,344	3,473
Dental	771	710	658	750	750	679
Industrial, including space and defense	1,925	2,560	1,975	1,884	2,191	2,577

[1] See exhibit 36.

Sources of gold

Of the 6,729,000 fine troy ounces of gold used by American industry in 1973, 1,322,000 ounces came from U.S. mine production and 5,407,000 ounces from sources abroad. 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 1973*

[Thousands of fine troy ounces]

Country	Exports	Imports
Austria [1]		1,140
Belgium	22	
Canada		1,611
Philippines [1]		87
Singapore	23	
Surinam [1]		24
Switzerland [1]		2,647
United Kingdom	155	20
West Germany	60	
Yugoslavia		114
Other countries	7	31
Total	267	5,674
Net imports of gold		5,407

[1] Includes purchases from foreign accounts at the Federal Reserve Bank of New York.

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

Gold coins

All genuine gold coins minted prior to 1960 (including all legally issued restrikes of gold coins dated prior to 1960) may be imported, held, and freely dealt in within the United States for numismatic purposes. There are no limitations placed on the quantity or value of eligible gold coins held or imported. Gold coins may not be held abroad by persons subject to U.S. jurisdiction.

BUREAU OF ENGRAVING AND PRINTING

The Bureau of Engraving and Printing, one of the world's largest securities manufacturing establishments, designs and produces the major evidences of a financial character issued by the United States. This Bureau is responsible for the production of U.S. currency, postage stamps, and public debt instruments, as well as miscellaneous financial and security documents.

Finances

Operations of the Bureau are financed by means of a revolving fund established in accordance with the provisions of 31 U.S.C. 181a. This fund is reimbursed by customer Government agencies for the direct and indirect costs of the Bureau, including administrative expenses, incidental to performing the work and services requisitioned.

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 Bureau 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 the replacement of capital equipment.

As a result, unit cost rates furnished customer agencies for fiscal 1975 included a surcharge which will allow the Bureau to accumulate partial reserves for replacement of capital equipment and reduce the necessity for appropriations from the Congress for such purposes. The 1975 surcharge was held to a minimum because of the Bureau's successful efforts to acquire major press and processing equipment without capital outlay or reserve requirements.

Production of currency

Total deliveries of currency in fiscal 1974 amounted to 2.3 billion notes, compared with 3.1 billion pieces delivered during fiscal 1973. The decrease reflects a reduction by the Federal Reserve System in the level of its cash inventory due to a reassessment of its emergency reserve requirements. In this connection, the staff of the Bureau is currently working with representatives of the Federal Reserve System as part of a task force appointed to develop sound methods for determining both short- and long-range requirements for currency.

In February 1974, the Bureau contracted for the acquisition of additional modern high-speed intaglio currency presses under an innovative lease-purchase arrangement which omitted any provision for termination liability. A similar arrangement was negotiated in April 1974 for acquisition of six production models of the currency overprinting and processing equipment (COPE). The COPE system is designed to supplant the essentially all-manual processing operations occurring after numbering and overprinting and will significantly reduce manufacturing costs. Through these successful arrangements the Bureau will be able to acquire in a relatively short time frame a major portion of essential custom-designed equipment.

Production of gas rationing coupons

In December 1973, the Bureau was requested to design and produce an initial supply of gas rationing coupons for possible use in the energy conservation program. In light of the counterfeit experience of World War II, and the security obtainable by line engraving, it was decided to print the coupons by the intaglio process. To meet the immediate requirement for 4.8 billion coupons, an estimated 3-month supply, assistance of the three banknote companies in the private sector was solicited. The Bureau furnished engraved dies, procured the printing paper, established security and quality controls in the commercial plants, and negotiated pricing in accordance with the technical specifications prepared. The coupons were delivered to depositories designated by the Federal Energy Administration.

In order to meet the emergency schedule, the Bureau also requested the Federal Reserve System to reduce its orders for new currency during this critical period. This was compatible with the System's decision to lower the level of its emergency inventories. As a result, currency deliveries in fiscal 1974 were reduced to 2.3 billion notes instead of the 2.7 billion projected in the budget.

Production of food coupons

To comply with a directive of OMB, the Bureau planned to discontinue production of food coupons in June 1973. However, since the Federal Reserve System had substantially reduced its currency requirements, the complete discontinuance of the food coupon program at the same time would have had serious adverse impact on the manpower requirements for the Bureau's highly skilled craft employees and noncraft personnel. Therefore, OMB approved a departmental request to allow the Bureau to continue production of approximately 20 percent of the Department of Agriculture's requirements during fiscal 1974.

During the latter part of fiscal 1974 the Department of Agriculture decided to replace the present food coupons with a new series with different denominations, design, and book conformation. Since the private sector banknote companies were unable to undertake production of the total number of coupons needed by the changeover date of March 1, 1975, OMB approved the Bureau's request to continue production of part of the program in fiscal 1975.

Production of postage stamps

Deliveries of U.S. postage stamps were 29.5 billion pieces in fiscal 1974 as compared with 26.6 billion in fiscal 1973. Abnormally heavy production was required during the fiscal year to meet demands arising from the postal rate increase of March 2, 1974. Through close liaison with representatives of the U.S. Postal Service, some six billion stamps of various denominations were produced in sufficient time for distribution to post offices throughout the country by the effective date of the postal rate increase.

As part of the Bureau's modernization planning, specifications are being prepared for equipment to mechanize the manufacture of postage stamps in book form. The acquisition of this specialized equipment will result in substantial manpower savings and reduced production costs. At yearend, the Bureau was installing two new multicolor postage stamp presses acquired with funds appropriated in fiscal 1972. The first of these is a multicolor intaglio press which will be used for the printing of postage stamps in coil form. The second is a combination gravure-intaglio press which will introduce a new dimension in production of other types of multicolor postage items. Placing this press in operation during the course of fiscal 1975 will not only broaden the range of the Bureau's printing-processing capabilities, but the technical experience obtained through its use will assist the Bureau in determining the type of presses to be acquired as replacements for obsolete single-color postage stamp presses.

Offset printing presses

Acquisition of a web-fed offset printing press is proposed during fiscal 1975, for use primarily in the production of red strip stamps for

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distilled spirits. Such a press has the capability for printing, numbering, sheeting, and counting, simultaneously. The elimination of the need to number such stamps in a separate printing operation will result in significant recurring annual savings in production costs.

It is also planned to purchase another sheet-fed multicolor offset press during fiscal 1975. This press will be used for production of postage stamps bearing offset printing, and will eliminate the need for multiple passes of sheets through two presses when more than two-color offset printing is required.

Internal audit program

During fiscal 1974, 52 reports of audit were released which contained 173 recommendations for possible improvements for management consideration. Coverage included fiscal and management audits and reviews of operations and programs, conducted on a scheduled, special, and unannounced basis.

Service to the public

The Bureau of Engraving and Printing continued to be one of the major highlights for visitors to the Washington area. During the year approximately 700,000 visitors availed themselves of the self-guided tour system to view the Bureau's production operations.

Several years ago, the Bureau's public information program was extended to include participation in numismatic and philatelic exhibitions and similar events outside the Washington area, bringing information about Bureau operations to a broader segment of the population. Three types of exhibits are furnished by the Bureau: (a) numismatic, commonly referred to as the "Billion Dollar Display"; (b) philatelic; and (c) a live press demonstration of the actual printing by the intaglio method with an explanation of the skills, methods, and techniques employed to produce currency, postage stamps, and other security items. Since 1967, one type or another of the Bureau's exhibits has appeared in 43 of the 50 States.

During fiscal 1974, Bureau exhibits were provided for 14 numismatic or philatelic events, attracting about 85,000 viewers, and 5 distinctive souvenir cards were produced and issued in recognition of significant events in which the Bureau participated.

The Bureau's participation at exhibits was curtailed, as compared with the previous fiscal year, in order to reduce travel costs, conserve energy, and meet the unexpected demands for the production of gas rationing coupons. Exhibit programming for participation at future events will be predicated upon the national significance and scope of the sponsoring organizations.

Labor-management relations

The Bureau has long fostered constructive and harmonious relationships with employees and labor organizations. Special emphasis and attention is directed toward the conduct of all labor-management dealings within the spirit and intent of Executive Order No. 11491, as amended by Executive Order No. 11616 of August 26, 1971. At the close of this fiscal year, there existed within the Bureau grants of exclusive recognition to 17 AFL–CIO affiliate unions covering 25 craft units, 1 noncraft unit, 1 guard unit, and 1 GS clerical/technical unit. There were 12 approved, substantive labor-management agreements. The unions function as a dynamic part of the Bureau and are a major factor in management considerations.

Awards program

During fiscal 1974, 1,166 employees received special achievement awards and 47 employees received high quality pay increases. Nonrecurring savings of $160,320 were realized in this fiscal year from this phase of the incentive awards program.

Under the employee suggestion phase of the program, 210 suggestions were received, of which 87 were adopted. It is estimated the Bureau will realize annual recurring savings of $56,286 and nonrecurring savings of $1,600.

Executive development

An executive development program was put in operation, utilizing the management by objectives approach. The first phase involved the identification of the specific knowledge and abilities necessary at each level of Bureau management. The second phase involved matching those requirements with the candidate's current development to formulate a series of personal and operational goals for improvement.

Concurrently, a management assessment center was developed in which 24 candidates who emerged successfully from a group screening process were assessed during a 1-week period in March. Feedback was provided to each candidate, and followup developmental and career planning has begun with the eight candidates who demonstrated above-average potential at the center. Planning has commenced for an assessment program to identify firstline supervisory potential.

Because of its uniqueness, the Bureau's assessment center was selected, from those currently used in the Federal Government, for presentation along with the Government-wide Federal executive development program, at the Second International Congress of the Assessment Center Method held at West Point in New York on May 15–17, 1974.

Training program

During fiscal 1974, 304 employees completed Bureau and Department training courses; 230 employees completed interagency training courses; and 200 employees attended specialized seminars, training classes, conferences, and exhibits sponsored by non-Government organizations.

During this time, 86 employees were enrolled in the general education development program, and several employees registered to take the high school equivalency examination. Four employees received their high school equivalency diplomas.

Training was provided at all levels of employment. In addition to an 80-hour training program for supervisors, which was offered on a continuous basis, an in-house course for advanced supervisors and middle managers is being organized.

Additional training courses included on-the-job and refresher training for current needs, developmental training in anticipation of future needs, training to develop unavailable skills, and training to develop underutilized and disadvantaged employees.

Employee attitude survey

During August 1973, a professional attitude survey was taken under a grant by the National Commission on Productivity administered by the National Academy of Public Administration. The results of the survey revealed a work force that is well trained, satisfied with their jobs, and positive toward the concept of productivity. Subsequently, work was begun on the development of a productivity sharing incentive pay system, designed to capitalize on demonstrated strengths and improve utilization of the incentive concept. Also, as a result of this survey, a communications consultant was temporarily employed to assist the Bureau staff in developing a system for evaluating communications effectiveness on a regular basis.

CSC model program

During September 1973, the Bureau agreed to participate in a Civil Service Commission project to compile and publish a series of model programs for achieving various personnel policy goals, such as upward mobility, career development, equal employment opportunity, etc. This project was designed to comply with congressional, OMB, and GAO requests urging the CSC to promote and coordinate agency efforts by furnishing outlines of effective model programs, based on actual agency experiences in each policy area.

Initially the Bureau was selected for its substantial success in the area of improved employee morale. The Commission later felt that the Bureau's efforts would more clearly fall under the broad heading of EEO and that the model program should be so identified. A draft model was completed and submitted to the CSC Bureau of Training for editing.

Equal employment opportunity program

The Bureau's equal employment opportunity program continued to achieve its objectives for advancement of minorities and females, and for promoting an environment of trust and confidence among all employees. To increase the number of Spanish-speaking employees, the scope of recruitment contacts was broadened. Employee committees for equal employment opportunity provided an effective and direct avenue of communication between employees and top management. Members of the Bureau's EEO staff participated in a wide range of community oriented programs. A review of minority statistics indicates steady progress in the advancement of minorities and females in the apprentice, journeyman, and higher grade GS positions in the Bureau.

Upward mobility

During fiscal 1974, the Bureau was represented by two active members on the Department's Upward Mobility Council. The work and recommendation of the council are reflected in the adoption of a Department upward mobility program as outlined in Treasury Personnel Bulletin No. 74–16. In compliance with Treasury guidelines, the Bureau has developed an internal upward mobility program designed to provide all employees with the opportunity to achieve their maximum potential and productivity within the work environment.

The Bureau's program was approved by the Department in early June and will be fully operational in the immediate future.

Safety program

Because of the industrial nature of the Bureau's operations, employee safety continued to be a vital concern to management. To this end, employee safety and health standards, as prescribed in the Occupational Safety and Health Act, received increased emphasis in their application to conditions and activities within the Bureau. Special attention was directed to the issuance and use of protective clothing and equipment, such as headgear, noise suppressors, respirators, gloves, and safety shoes, and to housekeeping throughout the Bureau in order to minimize unsafe conditions and potential fire hazards.

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 Assistant Secretary (Administration). It assists the Secretary and the Assistant Secretary (Administration) 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 employment policies and programs of banks, savings and loan associations, savings banks, and other financial institutions that are Federal depositaries or issuing and paying agents of U.S. savings bonds and savings notes (implementing Executive Order 11246, as amended, and Treasury regulations governing equal employment for Treasury contractors).

Federal employment

The Office continues to guide and oversee the implementation of the Department's equal employment opportunity program and action plans of all of the bureaus, continues to provide consultative services on equal opportunity matters, and continues to review and approve action plans promulgated in each bureau. It reviews and adjudicates all investigations of complaints alleging discrimination because of race, color, religion, sex, national origin, or age. The Office provides guidance to Treasury officials and all its field activities through its equal employment management review evaluations (onsite reviews began in the summer of 1972) concerning the employment and utilization of minority group persons and women in each bureau.

In fiscal 1974 (August 3, 1973) Treasury issued its new chapter 713 of Treasury's Personnel Manual entitled "Equal Opportunity" wherein the EEO complaint processing system was completely revised to comply with the provisions of the Equal Employment Opportunity Act of 1972. This new guidance was issued in order that the Department and its bureaus could assure the timely and expeditious processing and resolution of all complaints.

Progress in the administration of Treasury's equal employment opportunity program during fiscal 1974 was marked mainly by increased Department emphasis on the worker-trainee program, upward mobility program, Federal women's program, and the Spanish-speaking program.

Treasury's Spanish-speaking program has produced significant employment gains for Spanish-speaking Americans during the past 4 years. The Civil Service Commission employment statistics indicate that between November 1969 and May 1973, 4,652 Spanish-speaking Americans were hired by the Federal Government. Treasury's employment statistics indicate that between November 1969 and November 1973, the employment of Spanish-speaking Americans in the Department increased by 1,672 employees. Therefore, within a 4-year period Treasury has employed one-third of all Spanish-speaking Americans hired by the Federal Government.

The following Treasury minority employment statistics from December 1968 through November 1973 indicate a steady increase of minority employment within the Department.

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

	1968	1969	1970	1971	1972	1973	Comparison 1972–1973		Comparison 1968–1973	
							No.	Percent	No.	Percent
Total employees*	82,155	85,635	88,351	94,557	102,813	106,157	3,344	3.3	24,002	29.2
Negro	11,777	12,251	13,234	13,954	15,619	16,170	551	3.5	4,393	37.3
Spanish-American	1,052	1,116	1,489	1,754	2,247	2,788	541	24.1	1,736	165.0
American Indian	79	85	104	107	128	146	18	14.1	67	84.8
Oriental	482	505	596	687	813	1,084	271	33.3	602	124.9
Other	68,765	71,678	72,928	78,055	84,006	85,969	1,963	2.3	17,204	25.0
GS 1-4:										
Total	19,120	19,679	18,867	19,493	24,126	23,869	−257	1.1	4,749	24.8
Negro	4,947	4,948	5,156	4,993	5,904	5,932	28	.5	985	19.9
Spanish-American	255	300	398	502	791	922	131	16.6	667	261.6
American Indian	25	26	33	36	45	45			20	80.0
Oriental	80	87	96	125	159	186	27	17.0	106	132.5
Other	13,813	14,318	13,184	13,837	17,227	16,784	−443	2.6	2,971	21.6
GS 5-8:										
Total	19,480	21,603	23,826	26,494	27,601	30,793	3,192	11.6	11,313	58.1
Negro	2,708	3,077	3,467	3,856	4,290	4,837	547	12.8	2,129	78.6
Spanish-American	264	281	422	447	551	738	187	34.0	474	179.6
American Indian	26	24	30	31	35	46	11	31.4	20	76.9
Oriental	141	139	183	189	249	394	145	58.2	253	179.4
Other	16,341	18,082	19,724	21,971	22,476	24,778	2,302	10.2	8,437	51.6
GS 9-12:										
Total	28,893	28,737	28,960	30,436	32,321	32,615	294	.9	3,722	12.9
Negro	1,144	1,257	1,283	1,457	1,587	1,769	182	11.5	625	54.6
Spanish-American	332	316	389	450	519	709	190	37.0	377	113.6
American Indian	21	27	30	30	34	40	6	18.0	19	90.5
Oriental	186	179	203	213	222	299	77	35.0	113	60.8
Other	27,210	26,958	27,055	28,286	29,959	29,798	−161	.5	2,588	9.5
GS 13-18:										
Total	9,491	9,839	10,665	11,642	12,037	12,562	525	4.4	3,071	32.4
Negro	151	167	218	271	307	353	46	15.0	202	133.8
Spanish-American	35	38	54	72	88	117	29	33.0	82	234.3
American Indian	3	4	5	5	8	9	1	12.5	6	200.0
Oriental	55	70	67	77	90	102	12	13.3	47	85.5
Other	9,247	9,560	10,321	11,217	11,544	11,981	437	3.8	2,734	29.6

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

With the hiring of a full-time EEO program analyst (reviewer and evaluator) in fiscal 1975, greater direction in the implementation of bureau affirmative action plans will be exercised at the departmental level.

Treasury's affirmative action program and plan system, completed in November 1972, comprises 134 affirmative action plans which are designed to give decentralized implementation to the EEO program and provide greater benefits to the employees located in the United States and overseas. Treasury and its 12 bureaus have allocated 1,760 full-time or part-time employees to the EEO program for fiscal 1975 in an effort to make the program successful.

Contract compliance program

The contract compliance program implements Treasury's equal employment opportunity compliance responsibility by the Department of Labor to insure that financial institutions have ongoing contractual relationships to eliminate policies and practices of employment discrimination and develop affirmative action programs (Authorities: Executive Order 11246, as amended; 41 CFR 60; 41 CFR 10:12:8). Each financial institution serving as a Federal depositary and/or issuing and paying agents of U.S. savings bonds and notes must incorporate the equal opportunity clause contained in section 202 of the Executive order in its Government contract.

Compliance techniques include: Providing technical assistance information to financial contractors directly and through their trade associations; conducting compliance reviews at financial institutions having 50 or more employees as resources permit; selecting randomly a number of financial institutions previously reviewed for purposes of evaluating their performance in meeting goals and timetables; conducting followup reviews at financial institutions based on a failure to meet previous commitments; issuing show cause letters and conducting conciliation conferences with financial institutions found to be discriminating or which have failed to develop an acceptable affirmative action program; and invoking enforcement action where voluntary compliance cannot be achieved.

Liaison programs in the form of conferences, workshops, and seminars are ongoing with the American Bankers Association, U.S. Savings and Loan League, and Stonier and Wisconsin Graduate Schools of Banking. Technical assistance toward the goal of compliance has been rendered to the following State Bankers Associations: Alabama, California, Colorado, Florida, Georgia, Illinois, Louisiana, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Pennsylvania, Texas, and Wisconsin. In the course of these efforts and activities, it is estimated that 5,000 banks were reached and 30,000 bank officers and leaders were in attendance.

Through a two-phase compliance review approach, the contract compliance program was able to provide greater industry coverage with a reduced per unit expenditure. A system was implemented in accordance with Department of Labor Regulations, Revised Order No. 14 (41 CFR 60:60), to desk audit the employment posture of financial institutions prior to scheduling onsite reviews. Since the beginning of this fiscal year, 718 affirmative action programs were requested for desk audits, of which 341 resulted in onsite compliance reviews.

The contract compliance program has had considerable success in dealing with the industry, for minority employment has almost tripled since 1968. The Office of Federal Contract Compliance, Department of Labor, in a memorandum to heads of all agencies dated July 30, 1973, states, ". . . the banking industry has made large gains from 1967 to 1970, and although the rate slowed in 1971, is expected to reach full utilization in seven years."

In addition to the Washington headquarters office there are four regional locations: Atlanta, Chicago, Houston, and Los Angeles. In each of these offices there are three professional equal employment opportunity specialists conducting onsite compliance reviews. With these offices in closer proximity to financial institutions under their jurisdiction, it is anticipated that the aims of the compliance program can be realized best at the regional level.

Funds were made available to bring regional staff to Washington for a 5-day training seminar during the week of June 17, 1974. The Department of the Treasury and Office of Federal Contract Compliance policymakers participated to make clear current orders and regulations.

During the year a study of the management practices of the equal opportunity program was conducted. It is expected that implementation of the study recommendations will result in a more effective contract compliance program and improved management of the program in general.

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 with regard to the filing of Federal equal employment opportunity reports and the availability of written affirmative action programs whenever bank examinations are conducted. Negative reports filed with the Treasury Department are handled in a manner that assures the compliance of these two aspects usually within a 30-day period without travel, special reviews, etc. This cooperative endeavor with the bank examiners of the above-mentioned group has obviated considerable expense and requirements for additional staffing.

FISCAL SERVICE

In its role of providing leadership on technological research of all kinds having potential effect on one or more major organizational units of the Fiscal Service, the Operations Planning and Research Staff proceeded with the development of the following major systems activities during the year:

(1) A method of paying recipients of all kinds of recurring Federal payments by credit to their accounts in financial organizations. Under this technique, which is optional to a recipient, payments first will be accomplished by means of individual checks drawn in favor of, and mailed to, the financial organizations selected by the recipients. Cur-

rent planning provides that in the future all of these individual payments, estimated at from 3 to 5 million initially, will be transmitted to financial organizations by way of electronic funds transfers.

(2) A system under which the flow of all paid Treasury checks will be stopped at the level of the Federal Reserve banks. This system will substitute magnetic tape and microfilm records for all of the hundreds of millions of individual checks which are now shipped by the Federal Reserve banks to the Treasury for further processing, including final payment, reconciliation, and retention for nearly 7 years. The individual paid checks held by the Federal Reserve banks under this procedure would be destroyed after an appropriate interval.

Bureau of Government Financial Operations

On January 14, 1974, Secretary Shultz announced a reorganization of the Fiscal Service effective February 1, 1974, merging complementary operating functions of the Bureau of Accounts and the Office of the Treasurer of the United States, forming a new Bureau of Government Financial Operations.

The functions of the Bureau are Government-wide in scope. It provides banking and related cash services involved in the management of the Government's cash resources; administers certain U.S. currency matters such as directing the various aspects of the issue, redemption, and custody of Treasury and Federal Reserve currency, and maintaining facilities for and overseeing the destruction of currency unfit for circulation; disburses by check, cash, or other means of payment for most Government agencies; settles claims involving loss or forgery of Treasury checks; manages the Government's central accounting and financial reporting system by drawing appropriation warrants and other funding authorizations, by maintaining a system of accounts for integrating Treasury cash and funding operations with the financial operations of disbursing and collecting officers and of Government program agencies including subsystems for the reconciliation of check and deposit transactions, and by compiling and publishing reports of budget results and other Government financial operations; provides central direction for various financial programs and practices of Government agencies; and directs a variety of other fiscal activities.

Government-wide accounting and reporting

In January 1974, a Treasury task force began a deposit-in-transit systems study. The objectives of the study are to: (1) Revise the procedures for reconciling deposit-in-transit differences; and (2) redesign the certificate of deposit forms to facilitate fuller utilization of automated techniques in processing such forms in the depositary system and in the Treasury.

The simplified intragovernmental billing and collection (SIBAC) system was implemented on July 1, 1974, for civilian Government agencies within the Treasury disbursing area. The scope of the system is presently limited to the billing and payment of training and investigative charges billed by the U.S. Civil Service Commission office located in Washington, D.C., and standard level user charges for space assignments billed by GSA, Public Buildings Service.

The Departments of Agriculture and Treasury joint task force completed their study and recommended improved procedures for depositing and reporting proceeds from the sale of food stamps. The new food stamp deposit system was implemented nationwide on January 1, 1974.

During the year procedures were prescribed in the Treasury Fiscal Requirements Manual for Government agencies concerning: (1) fiscal yearend closing operations under Treasury Department Circular 965, Revised; (2) State tax agreements; (3) an experimental program to permit voluntary withholding of city income taxes; (4) reporting revenues and expenditures on the accrual basis; (5) payrolls, deductions, and withholdings; (6) check-issue disbursing procedures; (7) requirements for social security account numbers on savings bonds; (8) instructions for making the retroactive salary payments authorized under Executive Order 11777; and (9) payments of net pay to financial organizations and remitting allotments of pay for savings accounts to financial organizations.

Publication dates were further accelerated for major Governmentwide financial reports including the yearend Monthly Statement of Receipts and Outlays of the U.S. Government, the Combined Statement of Receipts, Expenditures and Balances of the U.S. Government, the Annual Report of the Secretary of the Treasury on the State of the Finances, the Statistical Appendix to the Annual Report, and the report on Federal Aid to States.

Beginning July 1, 1974, the Daily Statement of the United States Treasury will be published in a new format. The new format is designed to disclose the U.S. Treasury's daily cash and debt operations in the manner most useful to analysts in the financial community and the general public, and will be released within 2 days of the date of activity instead of 3. Some salient features of the new format are: (1) All information represents activity which took place on the date of the statement; (2) activities at Federal Reserve banks, tax and loan depositaries, and other demand account depositaries are shown separately; (3) significant one-time or intermittent transactions are identified and reported as they occur; (4) transactions in nonmarketable securities issued to foreign governments are reported separately; and (5) tax and loan account activity by size category of banks is shown separately. It is expected that classifications will be refined and expanded as accounting and reporting techniques are improved.

During the past fiscal year, the issuance of checks under special funded checking symbols for reclamation payments due to check forgeries and Public Debt registered interest payments on U.S. savings bonds, series H, were converted to the regular Treasury check-issuance procedures of the Division of Disbursement.

A joint Fiscal Service project was begun early in the year to review current methods for handling certain Government-sponsored agencies' transactions within the U.S. Treasury account and the use of Treasury and Federal Reserve bank facilities. The first phase of the project, completed July 1, 1974, involved removing the transactions of privately owned Government-sponsored agencies from the U.S. Treasury account. The agencies involved were the Federal National Mortgage Association, Federal home loan banks, Federal Home Loan Mortgage Corporation, Federal intermediate credit banks, Federal land banks, and banks for cooperatives. The transactions related to debt issuance (including redemption of short-term discount notes), investments, and other fund transfers of these agencies. The next phase of this project will be the elimination of Treasury special agent accounts maintained for redemption of securities and related payments of interest for the above agencies' securities. It is anticipated that this will be accomplished during fiscal 1975.

Assets and liabilities in the account of the U.S. Treasury

A table appears in the Statistical Appendix showing the balances at the close of fiscal years 1973 and 1974 of those assets and liabilities of the United States which have traditionally comprised the "Account of the Treasurer of the United States." This account designation was changed effective February 1, 1974, to "Account of the United States Treasury" by notice in the Federal Register of January 31, 1974. However, the assets and liabilities involved were still separately accounted for at the close of fiscal 1974, pending completion of a major systems review. They consist of gold bullion, coin, coinage metal, paper currency, deposits in Federal Reserve banks, and deposits in commercial banks designated as Government depositaries. Balances mentioned herein are on the daily Treasury statement basis and may differ from those in table 53 in the Statistical Appendix which is on a final accounting basis.

Gold.—The Treasury's gold stock changed only slightly during fiscal 1974 in terms of the number of fine troy ounces held. However, the dollar value increased $1,156.7 million due to revaluation from $38 to $42.2222 per fine troy ounce under the provisions of Public Law 93–110, approved September 21, 1973.[1] The revaluation was effected on October 18, 1973, simultaneously at all locations where gold was held. The dollar value was $10,410.2 million at the beginning of the year, $10,410.3 million before revaluation, $11,567.0 million on October 18, 1973, and $11,566.8 million at yearend.

Coinage metal.—Stocks of coinage metal stood at $320.9 million at the beginning of fiscal 1974 and at $418.3 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, 1974, on the daily Treasury statement basis, are shown in the following table:

	Number of accounts with depositaries [1]	Deposits to the credit of the U.S. Treasury June 30, 1974
Federal Reserve banks and branches	36	[2] $3,195,127,980
Other depositaries reporting directly to the Treasury:		
Special demand accounts	11	88,466,000
Other:		
Domestic	20	20,037,517
Foreign [3]	45	22,879,355
Depositaries reporting through Federal Reserve banks:		
General depositaries, etc	2,030	77,642,470
Special depositaries, Treasury tax and loan accounts	13,601	6,151,874,410
Total	15,743	9,556,026,732

[1] Includes only depositaries having balances with the U.S. Treasury June 30, 1974. 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 Treasury. 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 $276,140,897 in process of collection.
[3] Principally branches of U.S. banks and of the American Express International Banking Corp.

[1] See exhibit 36.

Receiving and disbursing public moneys

Government officers deposit moneys which they have collected to the credit of the U.S. Treasury. Such deposits may be made with the Bureau of Government Financial Operations 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 U.S. Treasury's account. Moneys deposited and withdrawn in the fiscal years 1973 and 1974, exclusive of certain intragovernmental transactions, are shown in the following table on the daily Treasury statement basis:

Deposits, withdrawals, and balances in the U.S. Treasury's account	1973	1974
Balance at beginning of fiscal year	$11,309,647,071	$13,741,306,873
Cash deposits:		
Internal revenue, customs, trust fund, and other collections	253,206,887,142	290,624,801,041
Public debt receipts [1]	497,556,268,758	528,050,041,186
Less:		
Accruals on savings bonds and notes, retirement plan bonds, and Treasury bills	8,236,440,346	11,374,887,297
Purchases by Government agencies [2]	137,503,631,324	158,358,355,980
Sales of securities of Government agencies in market [2]	28,057,892,802	37,468,971,141
Total deposits	633,080,977,032	686,410,570,091
Cash withdrawals:		
Budget and trust accounts, etc	276,735,923,600	301,747,669,402
Public debt redemptions [1]	466,675,124,386	511,131,830,766
Less:		
Redemptions included in budget and trust accounts	5,693,504,307	8,920,783,173
Redemptions by Government agencies [2]	125,044,047,256	142,091,330,136
Redemptions of securities of Government agencies in market [2]	20,341,007,521	24,207,161,479
Total withdrawals	633,014,503,944	686,074,548,338
Change in clearing accounts (checks outstanding, deposits in transit, unclassified transactions, etc.), net deposits, or withdrawals (−)	2,365,186,714	−3,725,338,138
Balance at close of fiscal year	13,741,306,873	10,351,990,487

[1] For details see Statistical Appendix.
[2] "Government agencies," as here used, includes certain enterprises which have been converted to private ownership.

The number of checks paid by categories of disbursing officers during fiscal 1973 and 1974 follow:

Disbursing officers	Number of checks paid	
	1973	1974
Treasury	520,053,169	575,542,273
Air Force	28,404,826	28,028,170
Army	36,665,847	35,787,486
Navy	35,767,193	35,565,814
Other	29,887,097	33,145,317
Total	650,778,132	708,069,060

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 1974, 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.

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 U.S. Treasury acts as special agent for the payment of principal and interest on their securities. A comparison of these payments during fiscal years 1973 and 1974, on the daily Treasury statement basis, is as follows:

Payment made for—	1973		1974	
	Principal redeemed	Interest paid	Principal redeemed	Interest paid
Banks for cooperatives	$3,708,695,000	$95,898,133	$5,229,635,000	$204,238,02
District of Columbia Armory Board		770,259		818,03
Export-Import Bank of the United States	402,158,721	77,875,366	150,602,154	140,490,55
Federal home loan banks	2,111,331,000	493,303,838	4,103,878,000	923,016,33
Federal Home Loan Mortgage Corporation	175,825,000	66,052,353	151,100,000	110,278,500
Federal Housing Administration	86,426,000	20,752,285	61,651,400	19,989,382
Federal intermediate credit banks	6,520,995,000	311,597,393	7,213,820,000	438,828,191
Federal land banks	2,373,510,500	504,705,990	2,618,733,400	618,795,279
Federal National Mortgage Association	2,945,583,000	1,086,926,620	3,407,723,000	1,135,304,787
Government National Mortgage Association	374,865,000	112,932,962	111,070,000	166,775,664
Student Loan Marketing Association			250,000,000	
Tennessee Valley Authority	940,000,000		1,158,941,000	
U.S. Postal Service		8,522,601		17,199,533
Washington Metropolitan Area Transit Authority		4,098,950		38,363,609
Others	143,300	12,351	187,525	6,087
Total	19,639,532,521	2,783,449,100	24,457,341,479	3,814,103,985

Disbursements and check claims

During fiscal 1974, a total of 586.7 million checks and savings bonds were issued by the 11 disbursing offices under Treasury's centralized disbursing system at an average cost of $0.0316 in payment of vouchers certified by 1,300 civilian offices. Over 98 percent of these payment items were produced by computers. In addition, 113.7 million computer-generated Federal tax deposit forms were produced.

The use of computer systems in the disbursing offices to perform a wide range of activities again resulted in increased employee productivity and permitted the Division of Disbursement to provide a variety of services benefiting Government agencies and the general public. Several small Government agency offices continued to receive automated payroll accounting services provided by the disbursing offices.

Following are the significant achievements during fiscal 1974:

1. The optical character recognition (OCR) system, installed in the Washington Disbursing Center in June 1973, has been operational for 1 full year. Approval was obtained for acquisition and installation of OCR systems for the Denver Disbursing Center in October 1974 and for the Chicago Disbursing Center in January 1975. The OCR equipment reads and converts typed voucher schedule payment data onto magnetic tape for computer input, expediting preparation of checks and reducing operating costs. Present plans are to combine miscellaneous payment workloads of eight disbursing offices into three OCR

processing disbursing centers. Annual savings of $544,000 are anticipated from the OCR payment system application.

2. The prototype check-wrapping system, in operation for 16 months in the Philadelphia Disbursing Center, manufactures an envelope from a roll of paper while simultaneously inserting a check and as many as three separate enclosures. Over sustained periods of operation, the system manufactures envelopes at a rate of 7.5 million per month. A total of 13 check-wrapping systems will be installed in 6 disbursing offices by the end of fiscal 1976. Estimated annual savings of $1.5 million are projected.

3. The supplemental security income program went into effect January 1, 1974. This program involves welfare payments to the aged, blind, and disabled which were formerly made by State agencies. Checks issued and paid under this program receive special handling in all areas of the Bureau and in the Federal Reserve banks. This special handling expedites the processing of claims and the authorization for the issuance of substitute checks. During the last half of fiscal 1974 approximately 25.9 million checks were processed. This volume is expected to increase to 60 million yearly.

4. Third-generation computer systems were installed in the Chicago and Birmingham Disbursing Centers in September 1973 and in the San Francisco Disbursing Center in November 1973. These systems, in addition to the ones previously obtained for the Austin, Kansas City, and Philadelphia Disbursing Centers, provide the Division of Disbursement with a greater capacity to meet the yearly increases in check production and to establish and maintain a rapid check claims research under a computer application.

5. The Kansas City Disbursing Center moved into new quarters on January 7, 1974. This is the third modern facility designed and constructed specifically for disbursing operations.

6. More agencies automated their accounts payable and submitted magnetic tapes to disbursing offices for the issuance of vendor and miscellaneous payments. The computer-generated notices that accompany many of the checks provide the recipients with a permanent record of the purpose for the check. Use of the notice has obviated agency and disbursing office handling of large quantities of various size paper inserts and has reduced inquiries concerning the purpose for the payments.

7. Computers were utilized to establish an automated check claims research system in five disbursing centers such as had been developed in the Chicago Disbursing Center in fiscal 1973. All Social Security Administration and the supplemental security income payment claims and returned-check information are processed by computer which has served to increase claims-handling efficiency and accuracy as well as reduce man-hour requirements. Plans for fiscal 1975 are to expand the computer claims system to Veterans Administration payments and to implement a pilot program whereby claims for supplemental security income payments will be processed under a complete computer tape system for the issuance of substitute checks.

8. Commencing July 1, 1974, the accounting for foreign disbursing was computerized. This entails computer preparation of the monthly

statement of transactions as well as a monthly detailed listing of all transactions, disbursements and collections, for 28 South American and Caribbean posts processed by the Washington Disbursing Center. The computerized accounting system eliminates certain mechanical and manual operations with resultant savings in man-hour costs.

The following table is a comparison of disbursing workloads for fiscal years 1973 and 1974.

Classification	Volume 1973	Volume 1974
Operations financed by appropriated funds:		
Checks:		
Social security benefits	309,679,143	324,627,344
Supplemental security income program		25,862,546
Veterans benefits	78,393,185	78,928,491
Income tax refunds	63,410,752	66,009,233
Veterans national service life insurance dividends program	1,742,327	2,870,965
Other	62,084,181	65,116,179
Savings bonds	7,558,533	7,643,271
Adjustments and transfers	299,109	299,164
	523,167,230	571,357,193
Operations financed by reimbursements:		
Railroad Retirement Board	14,085,444	13,968,671
Bureau of the Public Debt (General Electric Co. bond program)	1,070,522	1,409,201
Total workload—reimbursable items	15,155,966	15,377,872
Total workload	538,323,196	586,735,065

Settling check claims.—During fiscal 1974, the Division of Check Claims processed 1,055,000 requests to stop payment on Government checks and 98,000 requests for removal of stoppage of payments. This resulted in 439,000 paid check claims acted upon during the year, including 47,000 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 71,000 checks. During the year 46,000 paid check claims resulted in settlement checks to payees and endorsers totaling $12.2 million, and 48,000 claims resulted in payments to other agencies of $4 million for death and nonentitlement cases. In addition, 218,000 substitute checks valued at $93 million were authorized to replace checks that were lost, stolen, destroyed, or not received.

A major improvement project is underway to further automate check claims operations for third-generation computers. During fiscal 1974, the Division of Check Claims was furnished immediate access via remote terminals to Treasury check stop, intercept, cancellation, and withdrawal transactions that have been processed since 1972 through the electronic payment and reconciliation system. The time required for a complete turnover of the paid-check file and reporting check status has been reduced from once every 4 work days to once every 2 work days. These improvements expedite the processing time of a check claim. Additional progress is expected to be reported next year.

Banking and cash management

Federal depositary system.—The types of depositary services provided and the number of depositaries for each of the authorized services as of June 30, 1973 and 1974, are shown in the following table:

Type of service provided by depositaries	1973	1974
Receive deposits from taxpayers and purchasers of public debt securities for credit in Treasury tax and loan accounts	13,283	13,601
Receive deposits from Government officers for credit in Treasury's general accounts	1,158	979
Maintain checking accounts for Government disbursing officers and for quasi-public funds	7,561	7,369
Furnish bank drafts to Government officers in exchange for collections	908	1,200
Maintain State unemployment compensation benefit payment and clearing accounts	48	47
Operate limited banking facilities:		
In the United States and its outlying areas	210	209
In foreign areas	231	241

Collecting checks deposited.—Government offices during the year deposited 7.0 million commercial checks, drafts, money orders, etc., with the Cash Services Division in Washington for collection.

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 Treasury in Washington. The Bureau of Government Financial Operations 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 Treasury'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 1974 totaled $203,002.9 million and required the processing of 42.4 million cards, compared with $184,041.0 million collected and 38.5 million cards processed in the previous year. The following table shows the volume of deposits processed by Federal Reserve banks for fiscal years 1960–74.

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
1974	37,755,332	10,360	452,796	1,803,689	2,340,052	42,362,229

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

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 to Federal Reserve banks which permit grantees to make withdrawals from the Account of the Treasury of the United States as they need funds to accomplish the object for which a grant has been awarded.

By the close of fiscal 1974, 89 Government agency accounting stations were making disbursements through letters of credit. During the year the Bureau of Government Financial Operations processed 81,408 withdrawal transactions aggregating $38,640 million compared with 83,953 transactions totaling $35,802 million in fiscal 1973.

In addition, the letter of credit-Treasury RDO system was introduced this year with two agencies on a test basis. In this system agencies issue letters of credit to Treasury regional disbursing offices where payments are made by Treasury check upon receipt of requests from grantees. The requests consist of brief status of funds reports which enable the agencies and the Treasury to review, on a more current basis, each grantee's need for funds.

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. In order 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 approximately 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.

The Bureau of Government Financial Operations accounts for Federal Reserve notes from the time they are delivered by the Bureau of Engraving and Printing until redeemed and destroyed.

The Bureau also retires unfit paper currency of all types received locally and from Government officers abroad, and handles all claims involving burned or mutilated currency. During fiscal 1974, payments totaling $6.1 million were made to 50,477 such claimants.

A comparison of the amounts of paper currency of all classes, issued, redeemed, and outstanding during fiscal years 1973 and 1974 follows:

	Fiscal year 1973		Fiscal year 1974	
	Pieces	Amount	Pieces	Amount
Outstanding July 1	5, 998, 247, 159	$58, 901, 971, 440	6, 258, 373, 459	$64, 266, 738, 143
Issues during year	2, 868, 515, 604	19, 307, 752, 400	2, 940, 621, 243	21, 174, 514, 100
Redemptions during year	2, 608, 389, 304	13, 942, 985, 697	2, 723, 701, 821	15, 341, 196, 880
Outstanding June 30	6, 258, 373, 459	64, 266, 738, 143	6, 475, 292, 881	70, 100, 055, 363

Details of the issues and redemptions for fiscal 1974 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.

Methods of destroying unfit currency.—For the past several years, the Treasury has been looking for ways of destroying unfit currency which are more ecologically clean than the retort type incinerators now in general use by most of the Federal Reserve banks and the Treasury. During the fiscal year, six separate tests were made on other kinds of equipment and three other tests were made on cleaner types of incinerators.

Of the 36 places where unfit currency is now being destroyed, five are using hammermills which cause no environmental problems and provide residue which can be recycled into other uses. Unlike hammermills, the other alternative methods that have been tested require much developmental work before they can be adapted to currency destruction. They also would be considerably more expensive than incineration.

Because of the urgent need in some places to replace incinerators, the Treasury has permitted, until better techniques are available, the acquisition of new incinerators to destroy currency, provided that they meet all local air quality requirements.

Miscellaneous fiscal activities

Auditing.—During fiscal 1974, the Audit Staff conducted 71 financial, compliance, and operational audits of the various Bureau activities. In addition, visits were made to all Federal Reserve banks and branches to review operations pertaining to canceling, verifying, and destroying unfit paper currency Also, management surveys and operational reviews in selected disbursing areas were performed at six regional offices.

Also completed was the annual examination of the financial statements and related 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). 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, 1974, a total of 286 companies held certificates.

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, 1974.

Defense Production Act.—Loans outstanding were reduced from $5.6 to $1.9 million during fiscal 1974. Further transfers of $2.3 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 $35.1 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 $57 million have been paid into Treasury as miscellaneous receipts since July 1, 1957. Total unliquidated assets as of June 30, 1974, had a gross book value of $6 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 1974, payments totaling $57,281,015.97 had been made including $518,876.50 during fiscal 1974.

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 unclaimed Postal Savings System funds was not made to the States and other jurisdictions for fiscal 1974 due to the increased amount of payments being made to rightful owners.

Government losses in shipment.—Claims totaling $415,966.85 were paid from the fund established by the Government Losses in Shipment Act, as amended (40 U.S.C. 722). Details of operations under this act are shown in the Statistical Appendix.

Donations and contributions.—During the year, the Bureau of Government Financial Operations received "conscience fund" contributions totaling $44,165 and other unconditional donations totaling $1,580,742. 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 $6,255. Gifts of money and the proceeds of real or personal property donated in fiscal 1974 for reducing the public debt amounted to $417, 993.

Foreign indebtedness

World War I.—The Governments of Finland and Greece made payments during fiscal 1974 of $352,585 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 $68.6 million and an interest payment of $61.8 million on December 31, 1973, 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, 1974, cumulative payments totaled $2,249.9 million, of which $1,260.7 million was interest. A principal balance of $2,698.9 million remains outstanding; interest installments of $319.9 million which have been deferred by agreement also were outstanding at the fiscal yearend.

Indonesia, consolidation of debts.—The Government of the Republic of Indonesia made payment in fiscal 1974 of $3,048,680.10 in principal and $457,218.37 in interest on deferred principal installments in accordance with the Indonesian Bilateral Agreement of March 16, 1971. The normal payment of interest on principal is not due until June 11, 1985.

Payment of claims against foreign governments.—The 14th 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.

The second installment of $984,000 was received from the Hungarian Government under the agreement of March 6, 1973. The second installment was $39,000 greater than the initial installment because 6 percent of the dollar proceeds of imports into the United States from Hungary for the 12 months ending on December 31, 1973, exceeded the minimum installment by $39,000, thereby raising the annual installment from $945,000 to $984,000. Before any payment can be made on the Hungarian awards, the Foreign Claims Settlement Commission will have to adjudicate and certify new awards.

Administration

During fiscal 1974, approximately 200 employees participated in formal middle-management and executive training courses. Seven orientation sessions were conducted for employees of the Check Claims Division concerning merit promotion, employee development, performance evaluation, and incentive awards.

Thirty-two employees below GS-7 are participating in the upward mobility program. Target positions are GS-9. Participation in this program will be extended and further formalized in fiscal 1975 under the Bureau's newly developed upward mobility plan.

During the summer, a total of 94 students were employed: 48 summer aids, 23 summer exam students, 18 Federal junior fellows, and 5 stay-in-schoolers.

This past year, 16 major metropolitan and rural colleges were visited. Relationships were established and renewed with several colleges having a predominance or representative enrollment of minorities and females.

During the year, 105 Vietnam-era veterans were added to the rolls, 30 of whom were appointed under the Veterans Readjustment Authority. At yearend, 45 VRA employees were on Bureau rolls.

Union activity increased somewhat during the year. There are now four exclusive units: Washington, Birmingham, Austin, and Philadelphia Disbursing Centers. However, Austin and Philadelphia remain without contracts. The Bureau established and filled the position of labor relations officer who will formulate Bureau policy and provide guidance to local offices.

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 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 adjudicates 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 18,400 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 new building under construction in Parkersburg, W. Va., where functions of the Chicago and Parkersburg offices will be consolidated is scheduled for completion in November 1974. Several functions have already been moved from Chicago. A special storage warehouse has been built in Ravenswood, W. Va., which is not far from Parkersburg, to store the microfilm records of all savings bonds sold since 1941 and other Bureau records. The shipment of these records from the old facility in Oconomowoc, Wis., will be completed by mid-July 1974.

Four large issuing agents were brought under the system of reporting issues of series E savings bonds on magnetic tape rather than by card-type stubs. This raises the number of issuing agents involved in this continuing program to 31. Issues by these agents accounted for approximately 28 percent of the total sales this year.

As of October 1, 1973, social security numbers are required on all series E savings bonds. This allowed for the conversion of savings bond registration records from the alpha system to one based on social security numbers. Claims, inquiries, and other actions requiring file searches are processed more quickly as the numeric identification eliminates the duplications of alphabetic identification which must be manually resolved.

Beginning in October, the Bureau started shipping stocks of savings bonds to issuing agents via armored carriers, rather than using the Postal Service, thereby saving approximately $327,000. The change was made because of the abolishment of preferential rates for Government agencies which increased postal charges.

The age of the currently used computer equipment in Parkersburg and the increases in data volume and file storage requirements make its replacement necessary. A request for proposal is being developed for this purpose. Work has also begun to expand the expertise in third-generation software and equipment, to convert computer programs to COBOL, and to establish an equipment base for data communications between Washington, Parkersburg, and the Federal Reserve banks.

A Linotron 1010 electronic composing system is now being used to produce U.S. savings bond redemption tables. The system prints and formats the tables from a computer-generated magnetic tape containing the data and necessary format codes. The Linotron method is faster, more accurate, and requires less proofreading than the former method of printing.

The Federal Reserve banks are now authorized to redeem securities up to 1 year past the maturity date without wire clearance from the Bureau. This reduces the number of wires as well as the related searching and other processing steps. Prior to the change, the limit was from 1 to 6 months after maturity depending on the type of security.

The Federal Reserve banks are now wiring reports of public debt cash transactions to the Bureau early on the morning following the transaction date. This allows for changes in the debt to be reported in the Daily Statement of the U.S. Treasury on a current basis. Under the former "clearance date" system, changes were not reflected up to 14 days after a transaction occurred.

The automated system to maintain accounts of owners of registered Treasury and designated agency securities was fully implemented. This system provides the Bureau greater accuracy and timeliness in answering inquiries, reconciling the public debt outstanding accounts, and providing magnetic tapes to the disbursing office for periodic interest payments and annual interest earning statements.

The management and operation of the Bureau's computer center was transferred to the Office of the Secretary. The transfer was made to provide greater efficiency in the utilization of the computer by the Department of the Treasury. The Bureau's continued access to the equipment has permitted the release of a Honeywell 200 system along with the transfer of several personnel to the new installation.

A number of organizational changes were made in the Washington office to provide better utilization of skills and to improve or simplify work processing. These changes included: (1) merger of the Securities Division of the former Office of the Treasurer of the United States with the Bureau's Division of Securities Operations; (2) creation of a Division of Management Analysis with responsibility for management analysis and paperwork management duties; (3) reorganization of the Registered Accounts Branch to facilitate administration of the new automated accounting system; (4) abolishment of the Records Branch with the work transferred to other organizations; (5) consolidation of two accounting and reporting functions into one Accounts Branch; (6) reorganization of the Division of ADP Services into three branches to strengthen management of ADP operations; and (7) placement of the responsibility of two separate groups of the Internal Audit Office under one Director and designating the office as a division to bring it into line with other organizational titles in the Bureau.

Bureau operations

During the year, 66,063 individual accounts covering publicly held registered securities other than savings bonds, savings notes, and retirement plan bonds were opened, and 49,359 were closed. This increased the number of open accounts to 274,019 covering registered securities in the principal amount of $9,358 million. There were 455,951 interest checks with a value of $395 million issued during the year.

Redeemed and canceled securities other than savings bonds, savings notes, and retirement plan bonds received for audit included 5,371,948 bearer securities and 198,868 registered securities. Coupons totaling 15,698,060 were received.

During the year, 36,078 registration stubs of retirement plan bonds and 8,846 retirement plan bonds were received for audit.

A summary of public debt operations handled by the Bureau appears on pages 18–25 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 3,789 million, including reissues, received through June 30, 1974. 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 121.1 million series A–E savings bonds and savings notes redeemed and charged to the Treasury during the year, 118.3 million (98 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 $15,284,293 and an average of 12.93 cents per bond and note.

Interest checks issued on current income-type savings bonds (series H) during the year totaled 4,276,054 with a value of $425 million. New accounts established for series H bonds totaled 121,919 while accounts closed totaled 135,166.

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 54,204. In 30,157 of such cases the issuance of duplicate bonds was authorized. In addition, 9,732 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 FOREIGN ASSETS CONTROL

The Office of Foreign Assets Control administers five sets of regulations which implement the Department of the Treasury's freezing controls. The Foreign Assets Control Regulations and the Cuban Assets Control Regulations prohibit, unless licensed, all trade and financial transactions with North Korea, North Vietnam, Cuba, and their nationals. These regulations also block assets in the United States of such countries and their nationals. Under general licenses contained in the regulations, all transactions with the People's Republic of China are now authorized except transactions abroad by foreign firms owned or controlled by Americans involving shipment to the People's Republic of China of internationally controlled strategic merchandise, unless the transaction is appropriately licensed under the Transaction Control Regulations (see below). Also, transactions in Chinese assets blocked in the United States as of May 6, 1971, remain prohibited.

The Transaction Control Regulations 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., the People's Republic of 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 the listed 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 Office also administers controls on assets remaining blocked under the World War II Foreign Funds Control Regulations. As a result of an agreement with Hungary, all freezing controls over Hungarian property were removed in 1973. These controls continue to apply to blocked assets of Czechoslovakia, Estonia, Latvia, Lithuania, East Germany, and nationals thereof who were, on December 7, 1945, in Czechoslovakia, Estonia, Latvia, or Lithuania or, on December 31, 1946, in East Germany.

Finally, the Office administers the Rhodesian Sanctions Regulations, controlling transactions with Rhodesia and its nationals. The regulations implement 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.

Under the Foreign Assets Control Regulations and the Transaction Control Regulations, the number of specific license applications received during fiscal 1974 (including applications reopened) was 89. During the year a total of 89 applications were acted on.

Applications for licenses and requests for reconsideration under the Cuban Assets Control Regulations totaled 380. During the year, 337 applications were acted on.

During the same period, 308 applications (including applications reopened) were received under the Rhodesian Sanctions Regulations; 289 applications were acted upon. Comparable figures under the Foreign Funds Control Regulations for this period were 30 (including reopened) received, and 38 acted on.

Certain broad categories of transactions are authorized by general licenses set forth in the regulations; interested parties may engage in such transactions without securing specific licenses.

During fiscal 1974, violations of the regulations administered by this Office resulted in (a) criminal prosecution by the Department of Justice and conviction in one case, with a court fine of $5,000 and forfeiture of merchandise valued at $45,462, and (b) civil penalties and merchandise forfeitures amounting to $80,122. The total value of merchandise under seizure at the end of the fiscal year amounted to $2,564,382.

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

Gross tax collections in fiscal 1974 rose to a record high of $269.3 billion, an increase of $31.6 billion or 11.7 percent over 1973.

Individual income tax receipts were $141.4 billion, a $16.3 billion or 13-percent increase over last year, reflecting the substantial growth in personal income.

Corporate income tax collections totaled $42.7 billion, up $3.6 billion (9 percent) over 1973. Higher corporate profits generated by the economic expansion which began in calendar year 1971 accounted for the increase.

Employment tax collections amounted to $62.6 billion, a rise of more than 20 percent over the previous year. These collections include social security and other payroll taxes, unemployment insurance, and payments by the elderly for medicare. The growth of salaries and wages and increases in the taxable wage base influenced the gains in employment tax collections.

More than 65 million Americans received refunds in 1974. The $28.1 billion refunded was also a new high.

Almost 122 million returns of all types were filed in 1974 and processed by IRS service centers, compared with nearly 117 million in 1973. Individuals filed 83.9 million returns, compared with 80.4 million in 1973. Over 22 million (26 percent) of these individuals used the short form 1040A. Returns in 1974 were more completely and accurately prepared, were filed earlier by taxpayers, and were processed faster by service center personnel with fewer problems than ever before.

Assisting and informing taxpayers

Taxpayer service.—The Service recognizes its obligation to help taxpapers report and compute their tax liabilities and file timely and accurate returns. Each year, the IRS assists millions of taxpayers by answering their questions and helping them complete returns.

[1] Additional information will be found in the separate Annual Report of the Commissioner of Internal Revenue.

Toll-free telephone service was extended to all 58 districts in January 1974. Under this system, any taxpayer in the United States can obtain tax assistance without paying a long-distance charge. The toll-free numbers were listed in the income tax packages. In addition, a taxpayer may now use the toll-free telephone network to call IRS for clarification of computer-generated bills and notices regarding his account. The IRS implemented nationwide a program of inserting a stuffer with such notices listing taxpayer service toll-free numbers and inviting taxpayers to call IRS for an explanation of the notice and what is required.

Walk-in taxpayer service was offered in 778 permanent locations and over 300 temporary locations. During fiscal 1974, the IRS received 34,448,599 written, telephone, and walk-in inquiries. While taxpayers were encouraged to prepare their own returns, IRS personnel prepared individual returns for taxpayers who required this service.

In four districts, minicomputers were used for automatic preparation of form 1040A returns for individuals. This program was geared to taxpayers least able to prepare their own returns and least able to pay reliable practitioners. During the filing period, the IRS prepared over 31,000 returns with minicomputers.

During the 1974 filing period, 644 locations (including 91 temporary sites) extended their office hours to help taxpayers not able to call or visit during regular hours. Walk-in service accounted for about 25,000 extended hours and toll-free telephone service for about 7,000 hours.

The number of permanent taxpayer service representatives increased this year from 1,400 to just over 1,900.

The Service program to provide tax information in Spanish was extended in 1974. Districts with a high concentration of Spanish-speaking taxpayers employed Spanish-speaking taxpayer service representatives at 97 locations.

More than 811,000 low-income taxpayers received assistance under the volunteer income tax assistance program (VITA). Under VITA, which the Service started in 1969, volunteers from civic, community, church, senior citizen, and student groups provide free tax assistance to low-income people, retired persons, and others who have difficulty in coping with tax returns and generally cannot afford to have their returns prepared by practitioners.

Further improvements in the scope and quality of taxpayer service are anticipated next year under a reorganization to be implemented July 1974 which will separate taxpayer service from IRS enforcement activities at the district office level.

IDRS installed.—A milestone was reached during fiscal 1974 when the integrated data retrieval system (IDRS) was installed nationwide in all district and area offices and the office in Puerto Rico. IDRS links these offices, through video terminals, to computer files at the IRS service centers.

This video service speeds action on cases requiring special attention, such as refund inquiries, delinquent accounts, major errors in a taxpayer's balance, duplicate returns filed, and on cases expected to involve additional correspondence with the taxpayer. Inquiries which formerly took 4 weeks to process are now handled in a few seconds through IDRS.

Informing taxpayers through the media.—The Service continued to provide tax information through the Nation's mass media. Over 18,000 radio and TV stations, daily and weekly newspapers, and magazines received IRS material designed to inform and assist taxpayers. IRS personnel participated in 8,000 interviews, answered over 25,000 media inquiries, and delivered over 6,000 talks to citizen groups.

More than 8,500 news releases were issued to the media. Releases covered such topics as the advantages of filing returns early, services available to taxpayers, appeal rights, the Presidential election campaign fund checkoff, and tax relief for victims of natural and other disasters. Tax question-and-answer columns were prepared and distributed weekly to newspapers and magazines nationwide.

Tax forms and publications

Taxpayers found a number of improvements in their 1973 income tax forms package. Instructions for forms 1040 and 1040A were shortened and simplified. Also, taxpayers were no longer required to list the recipients of contributions for which they had canceled checks or receipts or to list names and dates for claimed payments to doctors, dentists, and hospitals.

Other changes included the reduction of revenue sharing questions to a single item and the listing of toll-free IRS taxpayer assistance telephone numbers in the tax packages.

Form W-2, Wage and Tax Statement, for 1974 was changed to facilitate mechanical matching of wage and other information documents.

Campaign fund checkoff.—With a change in law eliminating party preference, the Presidential election campaign fund checkoff designations were placed on the face of forms 1040 and 1040A, eliminating the need for filing a separate form. More taxpayers took advantage of this option. Of the 78.8 million 1973 tax returns processed in fiscal 1974, 11.8 million or 15 percent carried designations totaling $16.6 million. In addition, 833,000 or 7 percent of the 1973 returns showed designations totaling $8.6 million for 1972 by taxpayers who failed to designate last year and took advantage of a second opportunity on their 1973 returns. During the last 2 years, taxpayers have earmarked a total of $25.3 million to the fund for the 1976 Presidential election campaign, subject to final appropriation by the Congress.

Communications with taxpayers.—In 1974, the Service expanded its efforts to improve the tone, responsiveness, and clarity of written communications to individual taxpayers and to reduce the number of different types of form letters and notices used. Service personnel reviewed more than 1,600 letters, notices, and stuffers to improve their quality, prevent duplication, and eliminate obsolete communications. Over 500 were eliminated or consolidated through this centralized review process.

All correspondence with taxpayers now will contain a telephone number and, on manually prepared items, the name of an IRS employee who can answer questions about the particular piece of correspondence.

Audit Division contact letters were revised to make them clearer and more informative and to relieve taxpayer apprehension concerning audit actions. Initial contact letters were completely revised to tell the taxpayer about the examination process and that audit selection does not imply dishonesty or suspicion of criminal liability. In addition the contact letters describe appeal rights.

Tax publications.—Approximately 100 tax publications have now been developed by the Service to provide guidance to taxpayers by explaining the tax law in nontechnical language.

Special publications were developed for taxpayers faced with unusual problems. For example, new Publication 583, Recordkeeping for a Small Business, illustrates the type of records that a small business needs for tax purposes. Publication 584, Workbook for Determining Your Disaster Loss, was prepared to assist disaster area taxpayers.

Other new publications released in 1974 were Publication 585, Voluntary Tax Methods to Help Finance Political Campaign, and Publication 586, The Collection Process, and Publication 578, Tax Information for Private Foundations and Foundation Managers.

Tax rulings and technical advice

The Service's rulings program consists of private letter rulings and published revenue rulings.

A private letter ruling is a written statement issued to a taxpayer by the Office of the Assistant Commissioner (Technical) in the National Office interpreting and applying the tax laws to a specific set of facts. Such a ruling provides advance advice concerning the tax effect of a proposed transaction so that taxpayers may plan their financial affairs in such a way that a proposed transaction complies with the tax laws, thus avoiding future controversy and litigation with the IRS.

A published revenue ruling is an interpretation of the tax laws issued by the National Office and published in the Internal Revenue Bulletin for the information and guidance of taxpayers, practitioners, and IRS personnel. Most revenue rulings are letter rulings which are found to be precedent setting or to have broad enough applicability that they could be used as a general guideline by people in similar situations.

In addition to the following tabulation, the Service processed 14,329 applications from taxpayers for permission to change their accounting period or method and made 932 earnings or profit determinations.

Requests for tax rulings and technical advice (closings), fiscal 1974

Subject	Total	Taxpayers requests	Field requests
Total	15,619	14,017	1,602
Actuarial matters	1,077	1,019	58
Administrative provisions	50	42	8
Employment and self-employment taxes	472	423	49
Engineering questions	109	69	40
Estate and gift taxes	382	317	65
Exempt organizations	4,547	4,120	427
Other excise taxes	515	421	94
Other income tax matters	6,498	6,196	302
Pension trusts	1,969	1,410	559

Internal Revenue Bulletin.—In addition to rulings, the weekly Internal Revenue Bulletin also publishes procedures and other significant technical developments for the guidance of taxpayers, tax practitioners, and Service personnel. The contents of the weekly

Bulletins are compiled and published semiannually as Cumulative Bulletins.

While revenue "rulings" state the Service position on issues of general interest, revenue "procedures" announce practices and procedures that affect taxpayers' rights and obligations.

During 1974, items published in the Bulletin included 636 revenue rulings, 44 revenue procedures, 13 public laws relating to Internal Revenue matters, 5 committee reports, 7 Executive orders, 37 Treasury decisions containing new or amended regulations, 10 delegation orders, 3 Treasury Department orders, 5 court decisions, 7 notices of suspension and disbarment from practice before the Service, and 150 announcements of general interest.

The Bulletin Index-Digest System provides a comprehensive and rapid method of researching material published in the Internal Revenue Bulletin on income, estate and gift, employment and excise tax matters. Paid subscriptions to the Bulletin Index-Digest ordered from the Superintendent of Documents by individuals and firms outside the Service totaled 9,409, over twice the 3,538 of 1973, the first year it was published. It is planned to update the Bulletin Index-Digest System every 2 years. Material currently available in the basic volumes and cumulative supplements through December 1974, will be consolidated and republished next year.

Exempt organizations.—IRS published a series of rulings affecting tenants and homeowners associations. The Service ruled that an organization formed to represent tenants of an apartment complex in negotiations is not exempt as a social welfare organization. Also, an organization formed by the unit owners of a condominium housing project to provide for the management, maintenance, and care of the common areas of the project is not a social welfare organization. But a homeowners association which serves a community ordinarily identified as governmental and which does not provide exterior maintenance of private residences, is exempt as a social welfare organization where the common areas and facilities of the community are open to the public.

Estate and gift taxes.—Field offices are making extensive use of the National Office computerized program for making interrelated estate tax computations. These computations require solving for two or more mutually dependent unknown quantities. In fiscal 1974, the National Office processed approximately 445 requests for such computations.

Pension trust activity.—Pension trust activity was influenced considerably by the pending pension reform legislation.[1] The trend of increasing requests for determination letters on the qualification of pension and profit-sharing plans continued, while the total number of participants in such plans decreased from prior years.

The Senate passed a comprehensive pension reform bill (H.R. 4200) on September 19, 1973. The House of Representatives passed a substantially different bill (H.R. 2) on February 28, 1974. The Senate considered H.R. 2, but amended it on March 4, by deleting the House-passed provisions and substituting therefor the provisions of H.R. 4200 as previously passed by the Senate. Conference committee hearings followed to iron out the differences between the House and Senate

[1] See exhibit 43.

versions. A major problem involved differing provisions relating to jurisdiction in administering plans.

Ensuring compliance

The IRS audit activity is aimed at achieving and maintaining the highest possible degree of voluntary compliance with the tax laws. While the audit activity is the heart of IRS compliance efforts, virtually every return received is subject to varying degrees of scrutiny by man and machine.

All returns received in the 10 IRS service centers are checked for completeness and accuracy in preparation and for such clearly unallowable items as the taking of a partial exemption or duplicate deductions. Computers in the service centers check the accuracy of everyone's math and screen returns for additional items which may have escaped manual detection such as failure to reduce medical deductions by 3 percent of adjusted gross income.

Returns selection.—As its primary means of selecting returns for audit, the Service uses computers programmed with mathematical formulae—the discriminant function (DIF) system—to identify returns having the highest probability of tax error. Returns with the highest score under the DIF system are then selected for audit. Through this system, the IRS has reduced the number of taxpayers contacted whose audit would result in no tax change from 40 percent in 1969 to 28 percent in 1974.

Returns also are selected for audit by the "automatic" selection system under which all returns are screened by computers with certain criteria applied which can trigger automatic selection of a return for audit.

A third computerized selection system, the taxpayer compliance measurement program (TCMP), makes a random selection of returns within each income class for research purposes such as updating DIF formulae on more current taxpayer filing and reporting characteristics.

Some returns are also manually selected for audit for a number of reasons. For example, if the IRS is auditing the return of one business partner, the returns of additional partners in the same business may also be audited. Other returns may be manually selected as a result of information from other enforcement activities, news reports, or criminal investigations. The IRS also routinely screens returns of people requesting a tax refund or attempting to carry back to a previous year an investment credit or net operating loss.

In audits of large business firms where accounting records are processed through automatic data processing systems, the IRS uses computer applications records for rapid retrieval, analysis and calculation of data. The computer checks great masses of data that would be impractical to do manually and prints only data of audit interest. This technique results in substantial savings in manpower and money for the Service and the taxpayer.

Results of audit activity.—The Service examined 2,107,664 returns in 1974. Additional tax and penalties recommended amounted to $5.8 billion, and an increase of $0.8 billion over 1973.

Three of every four examinations involved individual income tax returns. These returns accounted for $1.2 billion in tax deficiency recommendations. Corporate returns, representing 6.4 percent of total examinations, produced recommendations for assessment of an additional $3.9 billion.

Not all examinations resulted in an increase in tax liability. In 1974, Service examinations disclosed overassessments on 102,765 returns, resulting in refunds of $363.5 million.

Appeals system.—As previously indicated, taxpayers are advised of their rights within the IRS at the earliest stage—initial contact letter. In addition, the Service revised Publication 556, Audit of Returns, Appeal Rights, and Claims for Refund, in November 1973, to explain in more detail, the IRS appeals system as well as the taxpayer's right to take his case to a district court, the Court of Claims, or the U.S. Tax Court.

The Small Tax Case Division of the U.S. Tax Court is available to taxpayers with a proposed deficiency of $1,500 or less. The court holds hearings in 104 cities. Most taxpayers, however, resolve disputes through the IRS appeals system.

On April 1, 1974, the IRS implemented a new procedure which permits conferees in district offices to settle tax disputes involving $2,500 or less in proposed tax deficiency overassessment or a claim for any one year. Previously, only the Appellate Division of IRS regional offices could make such a settlement. The change is expected to eliminate red tape and improve service for many low-income taxpayers contesting tax deficiencies. The IRS has district conferees in each of 58 district offices and 34 area offices, and a conference can be arranged in most of more than 700 additional locations.

In 1974, the appeals function disposed of 47,602 cases by agreement; the Tax Court decided 997 cases; and the U.S. district courts and Court of Claims decided 369 cases.

Tax fraud investigations.—The Intelligence Division enforces the criminal provisions of the tax laws by investigating allegations of tax fraud, including income, estate, gift, and excise tax evasion, failure to file returns, filing false withholding exemption statements (W–4), filing false refund claims, failure to remit trust funds collected, and claiming false estimated tax credits.

In 1974, the Intelligence Division completed 7,215 investigations and recommended prosecution in 2,454 cases. Grand juries indicted 1,441 taxpayers. Prosecution was successfully completed in 1,632 cases. In 1,062 cases, taxpayers entered guilty pleas and in 191 cases, taxpayers were convicted after trial. Acquittals and dismissals totaled 97 and 115, respectively.

Collecting delinquent accounts.—In 1974, the Service collected $2.5 billion in delinquent taxes, an increase of $183 million over 1973.

The Service extended the integrated data retrieval system (IDRS) to the delinquent accounts process in all 58 districts in 1974.

The Service has long recognized that preventing a delinquency is as equally important as collecting a delinquent account. In 1974, the concept of delinquency prevention received new emphasis. During the year, the IRS was able to devote increased man-years to this aspect of compliance. Under the delinquency prevention program, the IRS uses a variety of methods to identify those businesses whose profiles and histories indicate a significant risk for accruing delinquency. Then a preventive contact is made to help the taxpayer eliminate the cause of potential delinquency and meet his tax filing and paying obligations.

Stabilization and energy activities

IRS and stabilization.—From the inception of the economic stabilization program in August 1971, the Internal Revenue Service played a key role in the administration and enforcement of Phases I, II, and III.

Phase IV became effective August 13, 1973, and the responsibilities of the Service were changed and broadened. The Service was authorized to perform highly technical and analytic tasks formerly reserved to the Cost of Living Council. The IRS was given responsibility to receive and process price increase requests, review quarterly profit margin reports, issue subpoenas for witnesses and books, and compromise and collect civil penalties for violations.

During Phase IV, the Service processed over 10,000 price increase prenotifications involving 814 firms. The Service completed 8,890 of these cases and transferred 1,679 to the Cost of Living Council. The total dollar amount of the price increases requested was approximately $11.6 million, of which $9.8 million was granted and $1.8 million (15.4 percent of the total increases requested) was either denied or withdrawn.

The Service also monitored certain industries during Phase IV and conducted 1,400 surveys of plastics, rubber, chemicals, lumber, fabricated metal, fertilizer, and textile firms to determine which prices had risen and what allocation or supply problems existed.

The Service conducted a total of 8,393 investigations to ensure compliance with the economic stabilization regulations. Of these investigations, 20 were referred to the Department of Justice for appropriate action.

The Economic Stabilization Act expired on April 30, 1974, and the Service focused its efforts on finishing up investigations initiated before April 30 and accepting required filings of quarterly and annual processing. Stabilization personnel were phased back into tax administration by June 30, and the stabilization function ceased to exist. One liaison officer in the National Office on the staff of the Assistant Commissioner (Compliance) and liaison officers in each key district were designated to handle any post-June 30 matters which might arise.

Energy activities.—During the latter part of 1973, the energy shortage became critical, and the Federal Energy Office (FEO) was created to oversee energy-related problems.

Since petroleum firms were subject to Phase IV economic stabilization wage and price controls, the IRS already had employees experienced in conducting petroleum investigations. The Service was, therefore, called upon to continue enforcing energy controls until FEO could assume this responsibility. A memorandum of understanding between the FEO Administrator and the Commissioner defined the roles of the FEO and IRS and set forth the Service's authority to carry out its responsibilities. The agreement provided that the Service would supply 300 field enforcement personnel for FEO. As new FEO investigators were permanently assigned, the 300 IRS investigators would be returned to stabilization work.

From February through April 1974, the IRS recruited, hired, and trained 860 new employees to form a field enforcement staff for FEO. Although these new employees were on the FEO's rolls at all times, the Service had direct control and supervision over them until the Federal Energy Administration assumed the responsibility for direction and control of energy activities on July 1. Between December 1973 and the end of the fiscal year, the Service's goal was to enforce energy regulations for the FEO and to enable the FEO to assume the enforcement responsibility. During this period, the IRS initiated approximately 64,000 investigations, primarily of retail gasoline, diesel fuel, home heating oil, and propane dealers. Some 15,000 violations were found, and over $25 million was refunded either to specific customers or to the marketplace.

Inquiries from the public reached a peak of 63,000 calls per week in February 1974, when the nationwide gasoline shortage was most severe. Although these calls flooded district office telephone lines during the tax filing season, inquiries were handled without detriment to tax assistance.

The Service also instituted a refiner audit and review program, which measured the compliance of major refiners with the price regulations. This program terminated with completion of the first review on May 31, 1974. The review identified substantial amounts of improper cost passthroughs. The information was turned over to FEO for resolution.

International and State assistance activities

IRS international programs cover three functional areas: Administration of tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corporations; participation in the negotiation of tax conventions or treaties with foreign countries to prevent double taxation; and assistance to developing countries in improving their tax administration systems.

Tax administration abroad.—The Service maintains a system of permanent foreign posts to help tie together its domestic and foreign tax programs. IRS representatives at these stations engage in a variety of compliance and taxpayer assistance activities and provide a valuable communication link with foreign tax agencies.

In 1974, five additional posts were authorized for location at U.S. embassies or consulates in: Canberra, Australia; Caracas, Venezuela; Johannesburg, South Africa; Kuala Lumpur, Malaysia; and Teheran, Iran. The new posts are scheduled to be operational in fiscal year 1975. They are in addition to posts already established in Bonn, London, Paris, Rome, Tokyo, Ottawa, Mexico City, Manila, and Sao Paulo.

The overseas taxpayer assistance program in 1974 was the most comprehensive in its 21-year history. For the first time, the IRS Office of International Operations (OIO) assigned a full-time taxpayer service representative (TSR) to each of its nine foreign posts from January through June.

In addition, OIO detailed 11 other TSR's to travel to a total of 110 cities in 61 countries. The TSR's provided individual counsel or conducted classroom-type seminars according to the particular needs of each location. More than 45,000 U.S. civilians abroad received assistance.

Another annual service provided by OIO was a 4-day course of tax instruction at eight military bases around the world. During January and February, approximately 600 Armed Forces personnel attended these classes. As a result of this indoctrination, they, in turn, were able to provide tax assistance to fellow servicemen stationed overseas.

For the third consecutive year, the Service continued to improve overseas compliance by detailing examining teams of revenue agents and tax auditors to its foreign posts to conduct onsite audits.

The Service began a new program in 1974 to counteract overseas delinquency in tax payments, which previously had received only limited attention. Under the new program, delinquent taxpayers are contacted by revenue officers detailed abroad for this purpose. This collection program is expected to bring about a significant reduction in the overseas delinquency problem.

The use of magnetic tape in filing information returns is being expanded in the international area. Discussions were conducted with representatives of foreign industrial firms to determine whether sufficient technical integration exists for them to file on magnetic tape. Some companies are presently filing on tape and others are actively considering it. At present, approximately one-half of all information concerning tax withholding relating to foreign taxpayers is filed on magnetic tape.

Tax treaties.—Under tax treaty programs, U.S. and foreign tax officials exchange information to help eliminate tax avoidance. They also hold periodic meetings to develop new avenues of cooperation, to eliminate double taxation, and to clarify application and interpretation of tax treaties. During the past year, an income tax treaty was signed with Romania. This treaty, along with a similar agreement between the United States and the Soviet Union, awaits ratification by the Senate.

In 1974, the Commissioner announced an expanded information exchange program between the IRS and tax agencies of treaty countries.

Technical assistance in tax administration.—The Tax Administration Advisory Staff assigns tax advisers, upon request, to developing countries to help them modernize their tax administration systems. At the end of fiscal 1974, there were 14 advisers in 7 countries—Bolivia, Colombia, Guatemala, Paraguay, Trinidad-Tobago, Uruguay, and Vietnam.

The Inter-American Center of Tax Administrators (CIAT), which consists of 26 member countries of the Western Hemisphere, sponsors technical seminars in tax administration each year. The Commissioner led the U.S. delegation to the eighth annual CIAT assembly in Kingston, Jamaica, in May and delivered a paper on the organizational components and design of management and information systems for tax administration.

Tax administration officials from other countries also visit IRS facilities to discuss mutual problems or for training purposes. During fiscal 1974, 266 officials from 57 different countries participated. More than 3,800 officials from 11 countries have visited the IRS during the past 12 years.

Canada topped the list in 1974 with a total of 35 visitors, including the Minister of National Revenue who, along with 10 staff members, met with the Commissioner and key IRS officials for 2 days in February.

Aid to State tax authorities.—Under the Intergovernmental Personnel Act, IRS advisers have helped State tax offices improve their programs and have contributed to increased cooperation between IRS and State taxing authorities. This year, IRS assisted the States of Florida, Illinois, and Rhode Island and the Commonwealth of Puerto Rico.

In fiscal 1974, the Service provided 63 training spaces in basic revenue agent and other compliance classes and ADP courses for taxation employees of State governments. IRS also conducted courses in managerial and supervisory skills, taxpayer education, and taxpayer relations for State agencies at their training facilities.

Integrity programs

Internal audit and security programs help Service managers maintain high levels of integrity and efficiency.

The Internal Audit Division reviews Service operations to make sure that they are being carried out properly and efficiently.

The Internal Security Division conducts background investigations of applicants and investigates complaints of misconduct or irregularities concerning employees. The Division also investigates persons outside the IRS who attempt to corrupt Service employees or who threaten or assault employees.

Management actions resulting from internal audits have helped improve taxpayer service, increase operating efficiency, strengthen internal controls, and foster a climate of integrity within the Service. In areas where monetary measurement is possible, savings and additional revenue from inspection activities in fiscal 1974 are estimated to exceed $71 million. This amount includes $36 million from examination of an elaborate Florida land development tax avoidance scheme.

Advisory groups

The Commissioner's Advisory Group was reinstituted when the Commissioner appointed 12 prominent accountants, attorneys, and educators to serve as his advisory group during the 1974 fiscal year. The group, which held three 2-day meetings during the fiscal year and which will hold another meeting in the fall of 1974, provided the Commissioner with useful criticism and viewpoints on IRS operations so that the Service could do a better job of serving the American public. Members of the group serve without compensation, and their selection is based on nominations submitted by professional organizations in the tax field and by IRS officials throughout the country.

Art advisory panel.—Beginning in 1968, a panel of art experts—museum directors, scholars, and art dealers—has helped the Service determine the acceptable claimed value of works of art donated to charity and the reported value of art for estate and gift tax purposes. In its 6 years of operation, the panel has reviewed approximately $116 million worth of art and has recommended valuation adjustments of approximately $31 million.

At the three meetings held during fiscal 1974, the 12-member panel reviewed works of art valued in tax returns at approximately $33 million. The panel recommended substantial adjustments in approximately one-half of the valuations reviewed.

Planning activities

Modernization of the Service's automatic data processing system highlighted planning activities of 1974.

A major redesign of data processing systems—the tax administration system—is being developed by the Service to bring about such improvements as more rapid issuance of refunds, more efficient handling of taxpayer inquiries, and expanded computerization of compliance programs.

Equipment acquisition plans call for evaluation of vendor proposals and recommendations of contract awards during the first half of 1975. Initial testing of the first phase of the system, in one of the 10 service centers, is planned for September 1976. The IRS hopes to phase in the system so that all segments will be operational by January 1980.

The Service maintains formal Federal-State cooperation agreements with 48 States, the District of Columbia, Puerto Rico, Guam, and American Samoa for the mutual exchange of tax information. Magnetic tapes containing data from the individual master file for tax year 1972 were provided to 37 States, the District of Columbia, and Puerto Rico. Federal law authorizes the furnishing of taped information to the States for improving compliance with State tax laws. Gift tax information is also available to the States on magnetic tape.

Guidelines for Federal collection of State taxes are being set in accordance with the Federal-State Tax Collection Act of 1972. A handbook is being prepared for State officials explaining procedures for obtaining Federal help in State tax collection, changes which may be required in State laws, and IRS procedures for collection and administration of Federal taxes.

The Service conducted successful tests of the remittance processing system (RPS), a prototype computer system, to expedite the clearance and deposit of tax remittances. The RPS reduces remittance data input, numbering and preparation of accounting documents to a single operation. The system will cut processing costs, accelerate remittance posting of accounts and tax data bases, and provide a "fact of filing" indicator for account status operations. A pilot system to include all remittance processing activity within one service center is scheduled for early 1976.

Management and administration activities

Management improvement activities.—A reports curtailment project was initiated in 1974 to reduce the Service's reporting requirements and to improve remaining reports. This program resulted in the cancellation of 238 reports and projected annual savings of $2.6 million. Further improvements and cost savings during the second half of calendar year 1974 are expected to total $1.7 million.

Records disposal during calendar year 1973 resulted in the release of space and equipment valued at $1,654,000. A total of 137,151 cubic feet of records were destroyed and 275,373 cubic feet of records were retired to Federal Records Centers.

Implementation of the GSA office excellence program aided IRS efforts to provide appealing office space for taxpayers service areas at reasonable cost.

The toll-free telephone program not only improved telephone access to IRS offices but reduced the number of technical man-hours involved in providing taxpayer service in subdistrict offices and the walk-in taxpayer service traffic in all IRS offices.

Safety programs.—During calendar year 1973, the last year of the President's "Zero In on Federal Safety" campaign, the accident prevention efforts of the Service resulted in a frequency of only 1.9 disabling employee injuries per one million man-hours worked. This is the second lowest rate in Service history and is about 70 percent less than the average rate for all Federal agencies.

Service personnel operated motor vehicles over 108 million miles on official business during calendar year 1973 with only 737 accidents. This amounts to less than seven accidents per million miles driven, the lowest rate on record.

Management careers program.—The IRS management careers program received growing acceptance by management and employees. A new management program was initiated in 1974 by the Assistant Commissioner (Accounts Collection and Taxpayer Service) to improve the selection and development of managers in IRS service centers and the Data Center.

Executive personnel.—The Service met its responsibilities to fill the many executive vacancies that occurred late in 1973 and in 1974. Forty-three employees were trained in two 6-month executive selection and development program classes this year. Normally 10 to 15 participate each year. Nine classes were conducted for middle managers, the main source of candidates for executive positions.

Incumbent executives prepared individual development plans (IDP's) to insure continuing development of the executive corps. IDP's are designed to improve executives' performance in their present jobs, and to prepare them for movement to positions of increased responsibility. Actions to conserve executive manpower included using retired executives to instruct in management courses, and curtailment or delay of certain task forces which normally include executives.

Labor-management activities.—In early May, the Service concluded a 2-year collective-bargaining agreement with the National Treasury Employees Union (NTEU). This multidistrict agreement covers 30,000 employees in 56 of the 58 districts throughout the country. The agreement provides for bilateral, union-management decisionmaking in personnel policies and practices such as promotions and performance evaluations.

The IRS and NTEU also concluded an agreement covering about 2,500 employees in four of the seven regional offices. This 2-year collective-bargaining agreement is the first to cover more than one regional office. Taken together, the multiregional agreement, the multidistrict agreement, and the agreement covering most of the service centers include about 60,000 IRS employees.

The labor relations training program has been expanded to insure effective relationships between Service management and the unions representing IRS employees. Personnel officers and labor relations specialists, who advise managers, take part in a new training course which includes fundamentals of labor-management relations and which updates Federal labor relations using IRS cases.

Training.—IRS training centers conducted training for a record number of recruits last year, including approximately 3,000 revenue agents, 2,000 tax auditors, and 360 special agents.

Tax practitioners institutes were held for both new tax return preparers and for experienced practitioners needing refresher training. College-level students interested in the tax preparation profession were trained in the "Fundamentals of Tax Preparation," a course conducted at over 600 schools this year.

New training modules on taxpayer relations were developed for training compliance employees. Video tapes were used to depict situations faced by taxpayers and IRS representatives in compliance actions.

An innovative technique—simulation training—was added to the basic training course for taxpayer service representatives. The trainees rotated role-playing in many of the situations which occur in IRS offices from January through May. They are observed and critiqued during this training by four course instructors. The technique translates classroom theory into practice.

The Service has reduced many of the problems encountered with computer audits through a computer-assisted audit training program. A short training program in basic ADP concepts was given to 600 agents this year, and a second program, designed for a small number of specialists, trained 41 computer audit specialists to carry out a high quality auditing program involving ADP accounting records. A total of 85 computer audit specialists have been trained under this program, and additional agents are scheduled for training in fiscal 1975.

Over 860 investigators were trained in enforcement, compliance, and other regulatory procedures established by the new Federal Energy Act. Training courses began in February, and by June all had successfully completed the prescribed training and were transferred to the Federal Energy Administration. In addition, 88 of these investigators were trained in the refinery audit and review program (RARP), a course designed to help the investigators apply energy regulations in the audit of large refineries.

Performance evaluation.—A study was conducted in 1974 to determine whether a new emphasis on managers' responsibility in the performance evaluation area was achieving desired results. The study indicated improvement in the way supervisors were evaluating the performance of employees for promotion purposes. A computerized performance evaluation process was also developed to help implement the promotion plan in the union-management agreement affecting service center and Data Center employees.

Equal employment opportunity.—The Service has moved steadily to increase emphasis on equal employment opportunity and to insure upward mobility opportunities for all employees. Total minority employment was up 6.8 percent this year, including a 16.6-percent increase in employment of Spanish-speaking Americans.

In addition to extensive college recruitment efforts, EEO recruitment activities were carried out through job fairs, career days, and work-study and co-op programs. Under the cooperative work-study program alone, 878 students were employed by the Service, 176 of whom were employed full time.

During the year, a woman was appointed Deputy Assistant Commissioner and two black executives were advanced to the top field position of Regional Commissioner.

The Internal Revenue Service's upward mobility program will be implemented in the summer of 1974, and is composed of five major areas: Skills inventory, career counseling, individual development plans, training, and placement.

The Service has continued to increase employment of handicapped individuals in all occupations. As of December 31, 1973, 1,631 handicapped persons were employed by the IRS. Of this number, 94 blind individuals are working as taxpayer service representatives in IRS districts and as tax examiners in the service centers.

For the past 3 years, an IRS employee has reached final competition for the Outstanding Handicapped Federal Employee of the Year Award, which is made under the auspices of the Civil Service Commission and focuses attention on the valuable contributions of handicapped Federal employees and their ability to perform top-quality work.

This year, Mrs. Icy Deans, a tax examiner at the Kansas City Service Center, received the Outstanding Handicapped Federal Employee of the Year Award.

Protection of facilities.—During the past year, the Service continued to strengthen the protection of its data processing facilities by implementing an incentive-based guard contract. This new concept was developed jointly with the General Services Administration to provide the guard contractor with the motivation to do a superior job. In most cases, this type of contract has resulted in a significant improvement in the quality of guard service, thereby increasing the overall protection of the IRS facilities.

BUREAU OF THE MINT [1]

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 Mint installations. The Bureau of the Mint distributes coins to and among the Federal Reserve banks and branches, which in turn release them, as required, to commercial banks. In addition, the Mint maintains physical custody of Treasury monetary stocks of gold and silver; handles various deposit transactions, including inter-Mint transfers of bullion; refines and processes gold and silver bullion; and moves, places into storage, and releases gold and silver for such purposes as authorized.

Functions performed by the Mint on a reimbursable basis in fiscal 1974 included: The manufacture and sale of numismatic Eisenhower dollars; the production and sale of proof coin sets and uncirculated

[1] Additional information is contained in the separate Annual Report of the Director of the Mint.

coin sets; the manufacture and sale of medals of a national character; and, as scheduling permitted, the manufacture of foreign coinage.

The headquarters of the Bureau of the Mint is located in Washington, D.C. The operations necessary for the conduct of the business of the Mint are performed at seven field facilities. Mints are situated in Philadelphia, Pa., and Denver, Colo.; assay offices in New York, N.Y., and San Francisco, Calif.;[2] and bullion depositories at Fort Knox, Ky. (for gold) and West Point, N.Y. (for silver). The U.S. Mint, San Francisco, was activated at the end of fiscal 1973 to house the Mint Data Center, Special Coinage and Medals Division, and the Mint Museum.

The Mint's Internal Audit Staff was decentralized during fiscal 1974 to provide more effective coverage by increased onsite audit time at Mint field installations. Accordingly, resident auditors were assigned to the Philadelphia Mint, the Denver Mint, and San Francisco. Financial transactions and reviews of operating and administrative functions were included in the fiscal 1974 work of this staff.

The security program of the Mint, designed to provide continual protection of all Mint employees and assets, embraces the Mint guard forces, protective electronic alarms, safe and locking mechanisms, security surveys, and a personnel security clearance program. During the fiscal year a security awareness program, which includes new employee indoctrination and general employee participation, was initiated. Emergency plans were revised and reissued during the year; these included procedures to be followed in the event of fire, bomb threats, national disasters, disturbances, or internal emergencies.

The Mint safety program was continued with emphasis on actions to promote the well-being of personnel and the environment. Complete Occupational Safety and Health Act (OSHA) inspections of all Mint facilities were made for compliance with all applicable OSHA standards, including design and construction of facilities and equipment and hazard identification and reduction. Noise engineering studies and hearing conservation programs were begun at all Mint facilities. Safety

Bureau of the Mint operations, fiscal years 1973 and 1974

Selected items	Fiscal year 1973	Fiscal year 1974
Newly minted U.S. coins issued:[1]		
1 dollar	60,050,027	31,000,000
50 cents	228,029,973	178,609,834
25 cents	498,060,832	524,356,064
10 cents	814,244,006	836,906,500
5 cents	582,808,890	629,791,200
1 cent	6,523,487,520	8,247,873,600
Total	8,706,681,248	10,448,537,198
Inventories of coins in Mints, June 30	[r] 587,600,000	580,600,000
Electrolytic refinery production:		
Gold—fine ounces		2,009,278.452
Silver—fine ounces	5,029,331.79	3,045,404.866
Balances in Mint, June 30:		
Gold bullion—fine ounces	267,011,102	267,007,454
Silver bullion—fine ounces	45,791,428	45,017,170

[1] For general circulation only.
[r] Revised.

[2] The U.S. Assay Office at San Francisco also operates as a mint.

assurance was made a prerequisite to the purchase of all new industrial equipment.

A significant event in the history of the Treasury was the enactment of Public Law 93-127, October 18, 1973.[1] This legislation, known as the Bicentennial Coinage Act, provides that the reverse of the dollar, half dollar, and quarter dollar coins minted for issue after July 4, 1975, shall bear designs emblematic of the Bicentennial of the American Revolution. The new designs, selected by the Secretary of the Treasury, shall remain on the coins as long as the Secretary determines. The obverse of the coins will retain the designs currently on the coins, but those minted for issuance between July 4, 1975, and January 1, 1977, shall bear "1776-1976."

The Bureau of the Mint deposited $1,481,981,439 into the general fund of the Treasury during the fiscal year. Seigniorage on U.S. coins accounted for $320,706,638 of the deposit.

Domestic coinage

During fiscal 1974, U.S. Mints produced for general circulation cupronickel-clad dollars, half dollars, quarters, and dimes; cupronickel 5-cent pieces; and 1-cent pieces composed of 95 percent copper, 5 percent zinc.

The Denver Mint manufactured 5,110,637,214 coins, the Philadelphia Mint 4,978,364,000 coins, and the San Francisco Assay Office 349,183,932 1-cent coins. A total of 10,438,185,146 coins were manufactured for general circulation, which exceeded by 1,884,976,788 the Mint's previous highest production of 8,553,208,358 coins, achieved in fiscal 1973.

The Bureau of the Mint shipped 10,448,537,198 coins to the Federal Reserve banks and branches and the Treasury's Bureau of Government Financial Operations. Again this year, coins issued exceeded total production, reducing the Mint's inventories of coins.

The increased demand for coins stemmed mainly from speculative interest in 1-cent pieces, which reflected the rising price of copper. During the third quarter of fiscal 1974, the demand for pennies was 200 percent greater than the year before. On April 12, 1974, to discourage speculation, the Secretary of the Treasury approved regulations which banned the exportation, melting, or treating of 1-cent coins.[2]

In May 1974, the Mint announced a penny retrieval campaign. Approximately 62 billion 1-cent coins have been manufactured in the last 15 years, but only about 30 billion of them remained in circulation. The Director of the Mint appealed to the public to return to circulation the pennies that were being saved in shoeboxes, pickle jars, dresser drawers, or anywhere else. Retrieval of just 15 billion pennies would permit the Mint to cease manufacture of this denomination for 2 years, with a saving of $150 million. For every $25 worth of pennies cashed at a bank, the Mint offered a Treasury Department certificate made out to the individual and signed by the Secretary of the Treasury and the Director of the Mint. June was initially designated "Penny Redemption Month," but on the basis of numerous requests and the success of the program, the Director of the Mint extended the drive.

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[1] See exhibit 37.
[2] See exhibits 38 and 39.

All numismatic coins, including proof coin sets as well as the proof and uncirculated silver-clad Eisenhower dollars, were manufactured at the San Francisco Assay Office and bore the "S" mint mark.

U.S. coins manufactured, fiscal year 1974

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	25, 146, 000	$25, 146, 000. 00	3, 241, 388	$3, 241, 388. 00	28, 387, 388	$28, 387, 388. 00
Silver-clad			[2] 2, 897, 404	2, 897, 404. 00	2, 897, 404	2, 897, 404. 00
50 cents	126, 573, 600	63, 286, 800. 00	3, 241, 388	1, 620, 694, 00	129, 814, 988	64, 907, 494. 00
25 cents	436, 755, 600	109, 188, 900. 00	3, 241, 388	810, 347. 00	439, 996, 988	109, 999, 247. 00
10 cents	852, 224, 626	85, 222, 462. 60	3, 241, 388	324, 138. 80	855, 466, 014	85, 546, 601. 40
5 cents	643, 727, 600	32, 186, 380. 00	3, 241, 388	162, 069. 40	646, 968, 988	32, 348, 449. 40
1 cent	8, 353, 757, 720	83, 537, 577. 20	3, 241, 388	32, 413. 88	8, 356, 999, 108	83, 569, 991. 08
Total	10, 438, 185, 146	398, 568, 119. 80	22, 345, 732	9, 088, 455. 08	10, 460, 530, 878	407, 656, 574. 88

[1] All numismatic coins were manufactured at the U.S. Assay Office at San Francisco and included 1,954,947 proof sets dated 1973 and 1,286,441 sets bearing the year 1974.

[2] Consisted of 1,014,150 silver-clad Eisenhower proof dollars, all but 508 of which are dated 1973, and 1,883,-254 coins of the uncirculated variety, all but 114 of which bear the year 1973.

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, 785 parts copper.

Foreign coinage

The Mint is authorized to produce coinage for foreign governments on a reimbursable basis provided the manufacture of such coins does not interfere with coinage required for the United States. During fiscal 1974, Mint installations manufactured 387,086,533 coins for Honduras, Liberia, Nepal, Panama, and Taiwan. Approximately 360,620,-000 of these were for Taiwan.

Technology

Quality control activities were continued and extended to several new areas during fiscal 1974. Following the enactment of Public Law 93–127, which provides, among other things, for the use of any Mint facility for the manufacture of coinage, a decision was made to utilize the West Point Depository for this purpose. Accordingly, a quality control laboratory was designed for the West Point coining facility and arrangements for procurement of equipment and staffing were completed before the fiscal yearend.

A more representative sampling system for quality assurance of U.S. and foreign coins (produced by U.S. Mints) was implemented during the year.

The Department of the Treasury, through the Bureau of the Mint's Laboratory in Washington, continued to serve as the technical authority on the authenticity of U.S. coins. The Laboratory examined 1,929 questioned coins submitted by the U.S. Secret Service, the U.S. Customs Service, and the Office of Domestic Gold and Silver Operations. A member of the Mint's technical staff testified in seven court cases pertaining to the authenticity of U.S. coins.

During the fiscal year, a joint Department of the Treasury-Federal Reserve Board committee was established to investigate alternative materials for 1-cent coinage. Several alternative alloys and clad materials were tested on a laboratory scale and the most promising materials—an aluminum alloy, a 70 percent copper-30 percent zinc alloy, and gilded metal clad steel—were subjected to short production runs. In addition, the supply and demand characteristics of several elements including copper, zinc, aluminum, nickel, chromium, iron, manganese, and magnesium were studied in depth.

Production

During fiscal 1974 the Bureau of the Mint exceeded all previous years' domestic production by a substantial amount. New monthly and daily production records were also achieved. The June 1974 monthly production of 1,138,196,000 domestic coins exceeded the previous monthly record of 1,096,000,000 coins set in October 1966, a time when all Mint facilities were operating on a three-shift, 7-day week basis.

In order to meet the increasing requirements, the Mint established a firm long-range plan to expand its coin production capability. New production equipment delivered included 16 quad-type coin presses, 15 proof-type coin presses, 2 blanking presses, a 4,000 pound per hour blank annealing and cleaning line, and 4 upset mills.

Production at the West Point Depository is to start on August 1, 1974, with an expected maximum capacity of 1 billion to 1.5 billion pieces per year, depending on the coin being manufactured.

New shipping procedures resulted in the delivery of coinage dies within 1 day from the Philadelphia Mint, where all coinage dies are made, to the Denver Mint and the San Francisco Assay Office, as opposed to up to 5 days in the past. Improved security, as well as annual savings in excess of $30,000, resulted from the revised procedures.

Public services

Liaison with Federal Reserve System.—Treasury, through the Bureau of the Mint, continued its close liaison with the Federal Reserve System in determining coin requirements. U.S. coins, manufactured by the Mint, are shipped to the 12 Federal Reserve banks, their 25 branches, and the Division of Cash Services, Bureau of Government Financial Operations. The shipment by the Mint of 10.488 billion coins represented an increase of about 22 percent over 1973 requirements. Demand for coin as measured by the net outflow from Federal Reserve banks to commercial banks increased by 28 percent. Coin balances at the Federal Reserve banks on June 30, 1974, totaled approximately 1.762 billion pieces, a reduction of 30 percent from the date in 1973.

Special coinage 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 1974, with a total of 2,897,404 of these special coins produced—1,014,150 proofs and 1,883,254 uncirculated.

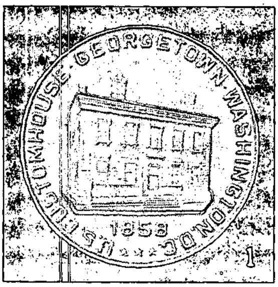
Regular proof coin sets offered to the public included one coin of every U.S. denomination from the dollar through the penny. During the fiscal year, 3,241,388 proof coin sets were manufactured, packaged in self-standing cases, and sent by registered mail to customers by the San Francisco Assay Office.

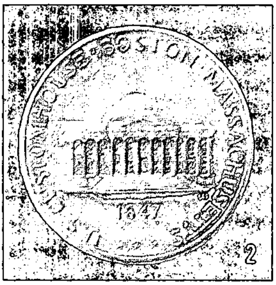
As part of the Department's coins and medals observance of the Bicentennial of the American Revolution, the Mint is producing in antique-finished pewter America's first 10 medals. These medals were voted by the Continental Congress in recognition of the bold commanders and successful Revolutionary War battles that won for a new Nation its freedom from foreign domination. The first set of the America's First Medals was presented to Mrs. Nixon by the Director of the Mint on February 19, 1974. The 1½-inch pewter medals are being offered to the public in units of two medals, at $10 per unit. Orders were accepted for the first two between April 1 and May 31, 1974. The other eight medals will be completed by July 4, 1976.

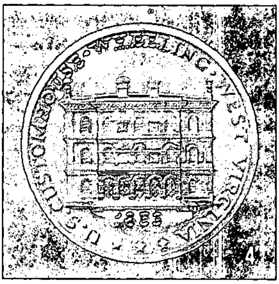
The second of the medals authorized by Public Law 92–228, February 15, 1972, was released early in fiscal 1974. In addition to the medals which were part of the Philatelic Numismatic Commemorative (PNC) package (consisting of the ARBA medal and a commemorative postage stamp, postmarked July 4, 1973, at Boston, Mass.) and the bronze "unique" package (a similar medal dated 1973), a silver "unique" package (a silver medal, dated 1973, in an individual self-standing case) was made available to the public in October 1973.

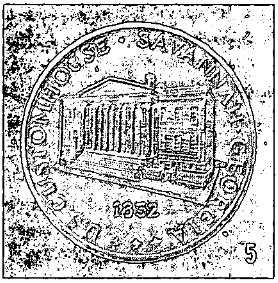
Because of the historical significance of the new coin designs authorized by Public Law 93–127 to celebrate for the first time an anniversary of American independence, the Department of the Treasury, through the Director of the Mint, in October 1973 asked the National Sculpture Society to conduct a nationwide competition for the new designs. The Treasury offered a $5,000 award to each of the three winners of designs emblematic of the Bicentennial of the American Revolution selected for use on the reverse of the three denominations. The sketch competition terminated on December 14, 1973.

From approximately 1,000 entries submitted, 12 were selected by the competition judges to be rendered into plaster form. The president of the National Sculpture Society, chairman of the panel of judges, notified the 12 semifinalists in January that the plaster models were to reach the U.S. Mint, Philadelphia, by February 22, 1974.





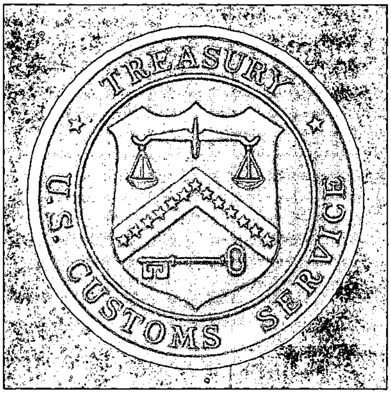




U.S. customhouses that have figured prominently in the Nation's history have been honored in a series of commemorative medals issued as part of the Department's Bicentennial observance. Five of the 10 customhouses to be named as national historic landmarks are depicted in the above medals, minted during fiscal 1974 as the result of an agreement between the Bureau of the Mint and the U.S. Customs Service.

The first medal recognizes the Georgetown Customhouse, Washington, D.C., which was dedicated as a landmark in August 1973. Three-inch and 1 5/16-inch bronze medals of the building, which were struck by the U.S. Mint for the ceremony, were given to the dignitaries present and offered for sale to the public. The other four customhouse medals, each 1 5/16-inch bronze, were issued in conjunction with customhouse dedications in Boston, San Francisco, Wheeling, W. Va., and Savannah, Ga.

The remaining five medals are scheduled to be issued in conjunction with the dedication of the other buildings during fiscal 1975. They are in New Orleans, Galveston, Tex., Galena, Ill., Providence, R.I., and New York, N.Y.



1. Georgetown Customhouse; dedicated August 1, 1973
2. Boston Customhouse; dedicated December 14, 1973
3. San Francisco Customhouse; dedicated March 22, 1974
4. Wheeling Customhouse; dedicated May 23, 1974
5. Savannah Customhouse; dedicated May 24, 1974

On March 6, 1974, the Secretary of the Treasury and the Director of the Mint announced that a colonial drummer boy, Independence Hall, and the Liberty Bell overlapping the moon were the Bicentennial reverse coin designs selected to appear on the quarter dollar, half dollar, and dollar, respectively. The double date "1776-1976" will appear on the obverse (front) of the coins below the portraits of Washington, Kennedy, and Eisenhower. The accompanying illustrations show the Bicentennial coinage designs.

In April, the designers visited Washington to receive their awards and the Philadelphia Mint to see their designs transferred into coining dies. In Washington they were welcomed to the White House on behalf of President Nixon by Counsellor Anne Armstrong. She expressed the opinion that Treasury, through the Bicentennial coin competition, has contributed to the intention expressed by the President when he said, "The Bicentennial must go directly to the people and derive its strength from the people."

Public Law 93-114, enacted on October 1, 1973, authorized the Mint to strike medals in honor of the San Francisco cable car at the San Francisco Assay Office. None of the medals had been struck by the end of the fiscal year.

In recognition of the achievements of Jim Thorpe as an athlete and as a great American, Public Law 93-132 was enacted on October 19, 1973. This law authorizes the U.S. Mint to strike a maximum of 100,000 medals in his honor. None of the medals had been issued by June 30, 1974.

On December 29, 1973, Public Law 93-227 was enacted authorizing the U.S. Mint to strike medals in honor of the 100th anniversary of the statehood of Colorado. The legislation provided that the medals, to be struck before December 31, 1976, may be produced at the Denver Mint.

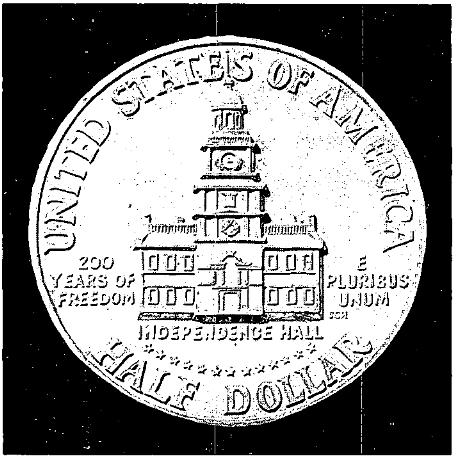
Public Law 93-221, also enacted December 29, 1973, authorized the production of medals to commemorate the International Exposition on Environment (EXPO '74) to be held in Spokane, Wash. The law provided that the medals be made either by the U.S. Mint or by a private mint, using dies manufactured by the U.S. Mint. The medals will be struck by a private mint.

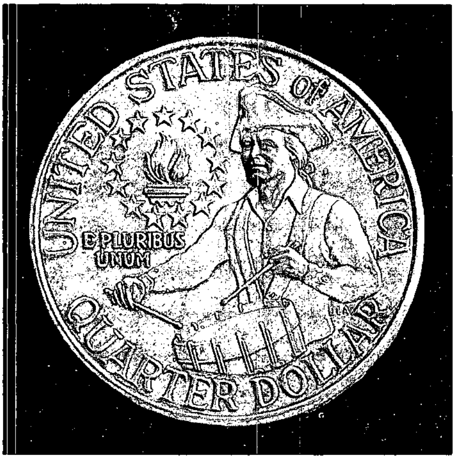
Reverse of the 1776-1976 dollar

Designer:
Dennis R. Williams,
Columbus, Ohio

Reverse of the 1776-1976 half dollar

Designer:
Seth G. Huntington,
Minneapolis, Minn.





Reverse of the 1776-1976 quarter

Designer:
Jack L. Ahr,
Arlington Heights, Ill.

In recognition of his long and outstanding service to the United States, a national medal honoring the late FBI Director, J. Edgar Hoover, was authorized by Public Law 93-309, June 8, 1974. When struck, these medals will be available for sale to the public, just as are other national "List" medals, at the Exhibit Room in Main Treasury in Washington and in the sales areas at the Philadelphia Mint, the Denver Mint, and the Old Mint in San Francisco.

OFFICE OF REVENUE SHARING [1]

The Office of Revenue Sharing is administratively located within the Office of the Secretary of the Treasury. The Revenue Sharing staff, consisting of 71 professional and clerical positions, has offices at 2401 E Street, NW., in Washington, D.C.

By the end of fiscal 1974, action had been taken to implement all provisions of Title I of the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) which authorized general revenue sharing.

During the year, $6.1 billion was distributed to approximately 38,000 States, cities, towns, townships, Indian tribes, and Alaskan native villages. This brought to $12.7 billion the amount that had been shared with States and local governments since the first payments were made in December 1972.

The State and Local Fiscal Assistance Act authorizes the distribution of $30.2 billion during the 5-year period that ends December 1976. The money is allocated by formulas contained in the law which use data on population, per capita income, and general tax effort for each recipient unit of government.

The annual process

During the year, the Office of Revenue Sharing and the Bureau of the Census perfected procedures to improve and verify the data before estimated allocations of funds for the following year are to be calculated.

In February of each year, the Census Bureau provides the Office of Revenue Sharing with data to be used to calculate each government's share of the revenue sharing appropriation for the forthcoming fiscal year. Each State and local government is requested to review the data and to propose improvements where warranted. Corrections are made accordingly. In April, the amounts to be paid during the coming year are calculated and each government is notified of the amount it may expect to receive.

During the year, some data items invariably require revision to reflect new information on municipal mergers or consolidations, or for other reasons. Late corrections in the data are accumulated and used to make a final allocation for the current fiscal year shortly before begin-

[1] Additional information is contained in the separate Annual Report of the Office of Revenue Sharing, March 1, 1974.

ning the cycle for the following period. Resulting adjustments in current-year amounts are added to or subtracted from the following year's estimated allocation.

Actual use reports

The first reports on recipient governments' uses of shared revenues were filed with the Treasury Department by September 1973. As required by law, these reports listed expenditures through June 30, 1973.

Overall, more revenue sharing dollars were spent in the field of education than in any other area of activity. Some 24 percent of the first $2.8 billion of expended money had been used for this purpose, with the greatest part spent by State governments which alone spent $664.3 million, or 65 percent of their shared revenues for education.

The next largest early uses of funds were public safety (23 percent of all funds expended) and public transportation (15 percent). Cities tended to identify public safety as the area of activity in which funds were most needed. Nationwide, they spent $434 million, or 44 percent of their money in support of such activities as police and fire protection and building code enforcement. All types of local governments together expended $635.2 million, or 35 percent for public safety. County governments established public transportation as their top-priority use of the money. Some $161.5 million, representing 25 percent of counties' early funds, was spent to construct, improve, and maintain public transportation facilities including streets, roads, and bridges.

The figures showed that more money had been used for current expenses to operate and maintain programs than for capital expenditures. This was particularly true in more densely populated areas, especially in the northeastern United States.

Some 63 percent of the recipient governments indicated that the funds had either prevented or reduced the amount of a tax rate increase. These findings suggest that the fiscal crisis facing many American cities has been mollified by general revenue sharing funds. Furthermore, one-third of all recipient governments reported to the Office of Revenue Sharing in July and August 1973 that general revenue sharing money has helped them to avoid or lessen a debt increase. Since most State and local debt is tax supported, it is possible to conclude that this use, too, will have a salutary effect on local tax rates.

Surveys and inquiries made to date strongly suggest that the limited (5-year) authorization for this program constitutes an inhibition on the local decisions for use of the funds. Many officials have chosen to limit their expenditures to capital purposes to avoid a future reliance upon funds which conceivably could be unavailable after 1976. Other influences, some external and some relating to the differing functions of different levels of government, have had their effects on expenditures of shared revenues.

Audit and compliance program

To assure that the funds are expended according to the requirements of the revenue sharing law, an audit and compliance program has been developed to utilize existing audit resources wherever possible.

State audit agencies willing to do so will perform regular audits of the local governments within their States using standards published by the Office of Revenue Sharing. The first formal agreement was concluded with the State of New York, where the State Comptroller will conduct annual revenue sharing audits of more than 1,600 units of local government. Similar agreements with other States are being negotiated.

Accounting firms which agree to do so will include revenue sharing in their regular contractual audits of States and local governments. Additionally, random audits will be performed by Revenue Sharing staff.

Cooperative efforts with other Federal agencies will include exchange of information and jointly conducted investigations and negotiations where appropriate.

Office of Revenue Sharing staff will investigate complaints as they are received.

Through these efforts, the Office of Revenue Sharing expects to achieve regular audit coverage of at least 90 percent of the monies distributed.

Since the Audit and Compliance Division of the Office of Revenue Sharing was established in fiscal 1974, its small staff of auditors, attorneys, and investigators has processed 92 complaints of which 45 have been resolved to the satisfaction of all parties. Another 46 cases are in various stages of investigation or processing, and 1 has been referred to the Department of Justice for civil action.

The Revenue Sharing organization

The staff is organized into eight functional units, as follows:

(1) *Administration.*—Manages personnel, budget, central services and other internal administration of the Office.

(2) *Program Planning and Coordination.*—Coordinates special research projects at the request of the Director; manages the program planning system.

(3) *Data and Demography Division.*—Responsible for acquisition of current and accurate data used to compute allocations of funds; conducts data improvement program.

(4) *Systems and Operations Division.*—Computes allocations of funds; writes payment vouchers; does all associated accounting; issues and processes required reports; produces computer-generated communications and publications.

(5) *Compliance Division.*—Responsible for assuring compliance with the law by all recipient governments; coordinates audits and investigations of recipients; undertakes cooperative compliance programs with other Federal agencies, State governments, and national associations of civil rights, women's rights and governmental organizations.

(6) *Intergovernmental Relations Division.*—Provides technical advice and assistance to State and local governments; maintains liaison with public interest groups.

(7) *Public Affairs.*—Provides information about general revenue sharing to the public, the media, citizens groups, other Federal agencies, research groups, and the Congress.

(8) *Chief Counsel.*—Interprets the law; issues opinion letters, prepares regulations; represents the Office of Revenue Sharing in all legal matters concerning the general revenue sharing program. Legal services are provided by the Department's Office of the General Counsel.

Presently, six attorneys and three support employees are so assigned to the Office of Revenue Sharing. During the fiscal year, Revenue Sharing attorneys have been involved in the defense of 7 lawsuits (2 suits being the consolidation of 21 actions). The legal issues in those suits involved civil rights, the applicability of National Environmental Policy Act, the interpretation of Indian treaties, and the determination of data factors for the revenue sharing allocation formulae.

UNITED STATES CUSTOMS SERVICE

The U.S. Customs Service mission 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 carriers, cargo, persons, baggage, 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.

U.S. Customs achieved record levels of activity during fiscal 1974. More than 257 million persons were cleared by Customs; more than 74 million carriers—ships, aircraft, and land vehicles—used in bringing people and goods to the United States were cleared. More than $4.2 billion in revenue was collected; imported merchandise valued in excess of $82 billion was processed.

Processing carriers

Carriers processed by Customs increased 1.6 percent over fiscal 1973. Included were 74,523,904 land vehicles (autos, trucks, buses, etc.), 364,823 aircraft, and an estimated 119,946 vessels. A detailed breakdown of arrivals is found in the Statistical Appendix.

Landing rights.—The authority to approve landing rights requests was delegated to Customs field offices by Treasury Decision 74–94, effective April 18, 1974. Guidelines for making such decisions were also published at that time.

Vessel violation profile (*VVP*).—In December 1973, a system was initiated to improve Customs detection of violations associated with vessels. Currently a customs officer processing a given vessel may be unaware of previous violations committed by this vessel in other U.S. ports or in foreign ports. VVP will give customs officers access, through TECS, to violation information collected Customs-wide. This information will include location and type of violation (narcotics, manifest, marine, etc.), section of law violated, revenue lost and received, etc. The system has been implemented as a pilot test in selected eastern ports.

Radar systems.—Customs has deployed a mobile 3-D ground radar system which is capable of providing range, azimuth, and elevation data on light aircraft out to a range of 80 miles. This radar is currently being modified to improve elevation readout and operational capability. Customs is also developing, under contract, an advanced airborne radar system for tracking suspect aircraft.

Processing cargo

There were 3,206,303 formal entries of merchandise in fiscal 1974—a decrease of 1 percent over fiscal 1973. A detailed breakdown of entry data appears in the Statistical Appendix.

Automated bond information system.—The automated bond information system, implemented on January 16, 1974, provides customs officers with up-to-date information on the approval and discontinuance of five Customs term bonds by means of computer printouts, in lieu of the previous cumbersome system of mailing copies of the bonds to all ports involved. The system also enables Customs to determine the amount of charges placed against the bonds at any time. Customs will be able to introduce a self-renewable term bond after the system has been operational for 1 year. This will eliminate the need for annual filing and processing of the five types of bonds included in the system.

Manifest and immediate delivery electronic data processing network.—The manifest and immediate delivery EDP network underwent the final stages of testing at JFK Airport in New York prior to going operational in fiscal 1975.

Automated immediate delivery procedure.—The matching of immediate delivery releases of merchandise with the entry documents filed in accordance with regulations was automated to provide a much quicker and more positive control.

Automated processing of duty-free entries.—National standard instructions pertaining to the required use of CF 5101 (Entry Record) on duty-free entries were issued. As a result, after July 1, 1974, duty-free entries will be liquidated under an ADP system and an increased amount of data will be available.

Automated merchandise processing system (AMPS).—To provide meaningful benefit to field operations as quickly as possible, Customs undertook to design, develop, and implement an operational system as the first phase of a National AMPS System, using the Port of Philadelphia as a test site. The early implementation system (EIS), which will provide operational support to the immediate delivery, the cashier and the entry-processing functions, will be operational in Philadelphia beginning in fiscal 1975 and will then be extended to additional ports.

Significant AMPS progress during 1974 includes:

1. Major reorganization of AMPS.

2. Development of written, detailed functional specifications and general requirements for EIS.

3. In-depth survey of all operational, staffing, and facility requirements for implementation of EIS in Philadelphia and Chicago.

4. Preparation of the operational site in Philadelphia, including the installation of terminals and communications equipment and a significant upgrading of the entry control and cashier's sections of the Philadelphia Customhouse. Facility preparations in the Port of Chicago were also undertaken.

5. Creation of all EIS data files necessary for the Philadelphia operation and the collection of source data for EIS files in Chicago.

6. Extensive orientation of the importing and trade community and of Customs management in Philadelphia.

7. Training of Customs personnel in Philadelphia and of selected personnel in Chicago on all EIS procedures.

8. Feasibility studies into areas of possible enhancement for EIS, including quota, on-line immediate delivery, manifests, and mail entries and initial work on the design of a revised quota system.

9. Comprehensive testing of all operational aspects of EIS in headquarters and in the Port of Philadelphia.

10. Inauguration of the immediate delivery subsystem of EIS in Philadelphia in March 1974.

11. A systems design study to merge EIS with the RETIDE (real-time data entry) system.

Concurrent with the development and implementation of EIS, a national systems concept for the AMPS program covering 23 separate Customs operational areas was completed.

Consolidated monthly entry of U.S. Government importations.—The U.S. Customs Service, the Bureau of the Census, and the Defense Department developed a consolidated entry procedure whereby Defense will provide Census with monthly statistical information on some 20,000 importations of military goods from Canada entered through approximately 150 ports of entry. This procedure will eliminate the need to file and process some 15,000 to 18,000 formal entries annually, and result in significant savings to all three agencies.

Cargo manifests.—The production of a Customs cargo manifest was eliminated for the movement of vessels in ballast and those vessels proceeding to U.S. ports with residue cargo destined for foreign ports or other U.S. ports. This has resulted in a substantial decrease in paperwork required to be handled by customs officers entering and clearing vessels.

Oil program.—A program to monitor imports of crude and refined petroleum products was instituted on January 1, 1974, at all Customs districts. Oil import information is obtained from the foreign inward manifest at the time of the first arrival of a carrier. A consolidated report of the previous day's imports is made daily to headquarters, which reports daily to the Federal Energy Administration. Monthly statistics on the volume of petroleum products in bonded warehouses are also furnished to the Federal Energy Administration.

Dumping and countervailing duty.—A total of 10 dumping cases were initiated during fiscal 1974, and 19 were closed. Sixteen cases were referred to the Tariff Commission, and 12 findings of dumping were issued. At the end of the year, 9 cases remained on hand.

During fiscal 1974, 3 countervailing duty proceeding notices were published, and 1 countervailing duty order was issued.

Tariff classification.—In a continuing program to improve the effective administration of item 807, Tariff Schedules of the United States (articles assembled abroad from components of U.S. manufacture and returned to the United States), extensive amendments of the regulations for item 807 importations and the formulation of interim operational guidelines were prepared. Conferences and seminars were held with various trade organizations, importers, and customs brokers as part of the Service's efforts to make the importing public better aware of Customs requirements under item 807.

FOB/CIF statistical reporting program.—In fiscal 1974, Customs participated in numerous meetings with the Tariff Commission and private groups which led to the FOB/CIF statistical reporting program, effective December 10, 1973. This program will generate additional statistical information on merchandise imported into the United States. In addition to the data covered by the regular statistical program, the Customs Service now collects, verifies, and transmits to the Bureau of the Census, data on the f.o.b. transaction value, transportation costs to the United States, and, for related party transactions, the equivalent of an arm's-length value. These new statistics, which were first published in the January 1974 Census reports, will make U.S. trade statistics more comparable with those of foreign countries and will give a more accurate picture of the competitive position of the United States in world trade.

Processing persons and baggage

More than 257 million persons entered the United States in fiscal 1974—an increase of 3.2 percent over the previous year. Of these persons, 93 percent arrived by land, 6 percent by air, and 1 percent by sea. A detailed breakdown of persons arriving is found in the Statistical Appendix.

Customs conducted more than 76 million baggage examinations and processed almost 13 million passenger, crew, and military declarations.

Preclearance.—Guidelines for preclearance operations were issued to assist customs officers and management personnel. Preclearance is in effect at Toronto, Montreal, Winnipeg, Vancouver, Nassau, and Bermuda.

Customs accelerated passenger inspection system (CAPIS).—In response to increased air passenger traffic, Customs has tested several types of inspection procedures designed to speed up processing time for air passengers while maintaining an effective enforcement posture. The latest development is CAPIS, which utilizes inspector time more efficiently and provides a more convenient, pleasant work area layout. The number of inspectional belts is reduced by 25 percent from the standard configuration, allowing wider aisles. The belt configuration places inspector work stations at each end, with a set of two conveyor belts arranged tandem on both sides of the work station. Passenger flow is speeded. TECS is incorporated into CAPIS, providing a more intensive enforcement effort. Under CAPIS, 75 percent of the passengers are released through free lanes without further processing; TECS information helps the inspectors concentrate on the 25 percent referred for secondary inspection.

Gold coins.—A significant policy change on gold coin imports relieved customs inspectors of the obligation to seize gold coins minted after 1933 found in the baggage of arriving travelers.

Processing mail

During fiscal 1974, Customs Service mail branches prepared over 2 million informal mail entries and collected $17,736,934 in duty, a decrease from fiscal 1973. The number of foreign mail parcels processed by Customs was 46,568,824, also a decline. Approximately 7,000 pieces of foreign mail contained pornographic matter which was seized; approximately 16,000 pieces contained lottery materials redelivered for disposition to postal authorities; and approximately 25 mailings contained counterfeit currency and related violations referred to the Secret Service.

Seizures of narcotics and dangerous drugs during fiscal 1974 in mail packages totaled 4,831. This included over 25 pounds of cocaine, 3 pounds of heroin, 1 pound of opium, and over 1,000 LSD tablets.

To speed the repackaging of mail parcels opened for inspection, 12 automatic parcel strapping machines were purchased and installed in the mail branches. These machines, utilizing a plastic strapping material and capable of making 40 ties per minute, replaced much of the obsolete string tying equipment.

Enforcement

Investigations.—The transfer of the narcotic investigative and intelligence functions and related resources to the Drug Enforcement Administration (DEA) required an immediate review of the organizational structure and operational functions of the Office of Investigations to provide the most effective utilization of enforcement manpower while maintaining a balanced enforcement program. As a result, the Investigations field structure was realigned to conform to the 9 Customs regions, and 17 foreign and 18 domestic field offices were closed. The new organizational structure and operational concept promoted a uniform approach to a wide range of investigative activities, including 32 case categories, and provided a clear delineation of investigative functions and responsibilities.

In fiscal 1974 special agents achieved outstanding success in a number of enforcement areas: The recovery of art and artifacts improperly taken from various countries, the arrest of commercial parrot smugglers, large seizures of gold and silver coins, cargo theft arrests, major neutrality violation cases, and major fraud conspiracies.

During the year special agents made 4,434 seizures of merchandise appraised at $72,064,000. These seizure actions resulted in 1,940 arrests for Customs and 1,282 arrests for other agencies. Convictions totaled 1,983. In addition, 21,981 cases, including technical, smuggling and organized crime, regulatory, special, verification, and foreign investigations, were closed.

Neutrality violations.—315 cases of neutrality violations were investigated. In November 1973, a large quantity of M–1 rifles was seized and five individuals were arrested for attempting to smuggle these weapons into Mexico from California in violation of neutrality laws.

A major neutrality violations case was broken in February 1974 when military helicopter parts and accessories, destined for El Salvador and worth over $20 million, were seized by special agents in Los Angeles.

Parrot smuggling.—Special agents made arrests and seizures related to the smuggling of parrots into the United States in the Southwestern border areas. These birds carry the Newcastle disease which could literally decimate the $6 billion poultry industry in the United States. The last time this disease was detected, over $50 million was spent by the U.S. Department of Agriculture in eradication efforts. In fiscal 1974, there were outbreaks of Newcastle in El Paso, Tex., and of parrot fever in New York City which were traced directly to smuggled birds.

Silver and gold coin smuggling.—There has been a continuing pattern of silver coin smuggling from Canada into the United States. The following coin seizures indicate the volume of the smuggling traffic: September 7, $13,400; September 27, $2,000; October 2, a ring which had been smuggling upwards of $20,000 in coins per week; October 14, $10,000; October 28, $13,000.

In October 1973, the Houston office arrested two persons and seized $23,000 in gold coins being smuggled into the United States by commercial coin dealers.

Currency violations.—In February 1974, a recognized organized crime courier was indicted for failure to report the transportation of $110,000 in currency from the Bahamas into Fort Lauderdale, Fla.

Smuggling of opals.—In January 1974, undercover work by an agent assigned to the Sacramento office disclosed the smuggling of approximately $30,000 worth of opals from Australia into the United States.

Undervaluation of cut flowers.—The Miami field office has been investigating the undervaluation of cut flowers imported from South America. Thus far, eight importers/shippers have been charged with civil fraud violations, and total loss of revenue has exceeded $250,000. Largely as a result of this continuing investigation, the entire cut flower industry has discontinued these practices.

Fraud violation.—In February 1974, at Bloomington, Ind., a television component manufacturing concern was charged with a civil fraud violation—commingling foreign and domestic TV tuners—which resulted in a loss of revenue of $1,755,000. Penalties to be collected from this case should exceed $2 million.

Patrol.—Customs patrol operations and the air and marine support functions were consolidated into one uniformed enforcement force beginning in October 1973. An increase in the number of officers and additional and more modern equipment enabled the patrol to become a highly visible and viable force. The objective of the patrol plan is to interdict the influx of narcotics and other contraband. In 9 months of the fiscal year, the program accomplished seizures of over 113 tons of marijuana, 2,700 pounds of hashish, 108 pounds of cocaine, 9 pounds of heroin, general merchandise valued at over $1 million, and currency of almost $900,000. Also, as a result of these contraband violations, 349 vehicles, 19 watercraft, and 8 aircraft were seized and a total of 683 persons arrested. The effectiveness of the patrol continues to increase with the gaining of equipment and experience and refinement of work methods.

The sophisticated equipment now being utilized in the patrol program has been made available to other law enforcement agencies, including the FBI and DEA, along with the necessary manpower for operation. The capability of TECS has also been offered to all interested agencies in an effort to coordinate activities. Customs established liaison with foreign officials concerned with comparable problems, including Mexican and offshore island officials, in the continuing effort to counter the illegal importation of narcotics.

Seizures.—Seizures for violations of laws enforced by Customs appears in the Statistical Appendix.

Although drug abuse investigative activities were transferred to the Drug Enforcement Administration under Reorganization Plan No. 2, effective July 1, 1973, Customs is still charged with the interdiction of narcotics and dangerous drugs at our ports and borders.

The following table shows in detail the amount of narcotics and dangerous drugs seized in fiscal 1974, as compared with those seized in fiscal 1973. Marijuana seizures for fiscal 1973 are adjusted to reflect only seizures made by Customs.

Seizures by U.S. Customs Service	Fiscal years		Percentage increase, or decrease (−)
	1973	1974	
Heroin:			
Pounds	253	76	−70.0
Number of seizures	579	460	−20.6
Opium:			
Pounds	136	21	−84.6
Number of seizures	119	51	−57.1
Cocaine:			
Pounds	734	907	23.6
Number of seizures	929	1,049	12.9
Other narcotics:			
Pounds	45	138	206.7
Number of seizures	281	219	−22.1
Hashish:			
Pounds	9,073	8,099	−10.7
Number of seizures	3,700	3,233	−12.6
Marijuana:			
Pounds	312,062	451,068	44.5
Number of seizures	7,976	13,993	75.4
Dangerous drugs:			
5-grain units	15,802,258	23,592,108	49.3
Number of seizures	2,219	2,408	8.5

Treasury enforcement communications system (TECS).—Additional real-time terminals were installed at airports, seaports, and other locations to expand system coverage. Expansion included Toronto and Montreal airports to assist in the preclearance of air passengers, as provided by the United States-Canadian agreement, and the gateway airports of Boston, Philadelphia, Washington (Dulles), Miami, New Orleans, Los Angeles, and San Francisco.

The TECS data base was expanded by incorporating suspect and criminal information from other enforcement systems. DEA agreed to exchange information, and Interpol and NCIC also now provide data for TECS. Interface with the national law enforcement teletype system (NLETS) to improve communications with local, State, and other Federal systems was also completed this year.

TECS also was employed in the enforcement of duty assessments. Import specialists in over 20 districts can now query TECS to determine if the importer they are processing is the subject of an ongoing fraud investigation. Information on importers suspected of engaging in fraudulent practices will be added to the TECS data base in the near future as well as information on the major accounts that have been the subject of an intensive query program. TECS was also tested in mail operations to identify potential contraband or other mail violations, and mobile terminals were tested for use by customs officers who may not have convenient access to a fixed location terminal.

Enforcement support.—In April 1974, an Office of Enforcement Support was established with the mission of supporting all Customs enforcement programs. This support falls into four major areas: The Treasury enforcement communications system, the Customs information system, technical development and support, and communications.

Customs law enforcement activity reporting system (CLEAR).—The case inventory and the arrest and seizure reporting systems are being integrated under CLEAR to provide improved statistics and management information. The search/arrest/seizure portion became operational on July 1, 1974, while the fines and penalties portion was being developed for early fiscal 1975 implementation. Interfacing with TECS and with specialized reporting systems is planned to obtain better enforcement statistics.

Enforcement communications.—The sector radio communications system, which enables Customs enforcement personnel to communicate by radio with each other and with other agencies, was expanded to cover the entire southern border.

Fines, penalties, and forfeitures.—Headquarters received, reviewed, and prepared legal decisions concerning violations of customs and related laws and claims for liquidated damages assessed under customs bonds. The net liability imposed by penalty decisions in fiscal 1974 increased by 169 percent from fiscal 1973.

Revised procedures for handling penalty cases, both in the field and at headquarters, were adopted. These included delegations of authority and responsibility for fines, penalties, and forfeitures programs to districts and regions; establishment of fines, penalties, and forfeiture organizations in the larger districts and of a position in the Regional Counsel's office specifically to provide legal advice and guidance to the Regional Commissioner on fines, penalties, and forfeitures matters; and delegation of additional authority to headquarters managers. Other recommendations in various stages of implementation included preparation of a comprehensive policy and procedures manual; development of an automated control system; and establishment of a formal fines, penalties, and forfeitures program evaluation system. Full implementation of these recommendations will promote the uniform treatment and the timely processing of penalty and liquidated damages cases throughout the Customs Service.

Fraud.—During fiscal 1974, 4,106 cases of fraud were investigated and processed. Merchandise involving a potential loss of revenue of $14.8 million was seized or forfeited.

Detector dog program.—Facilities were obtained at Front Royal, Va., for the Detector Dog Training Center. Fifty-five dog handlers were recruited, 28 of whom were trained and sent to the field. Dog program orientation presentations were given at the district level in those areas receiving their initial detector dog teams.

Restricted merchandise.—Customs enforcement against foreign obscene matter was given renewed impetus during fiscal 1974, particularly with respect to imports of pornography for claimed private, noncommercial use. Approximately 800 imported motion picture films, principally entered at the Port of New York, N.Y., were screened. Of 19 film seizures the U.S. attorney filed 14 complaints in the district court for judicial disposition on the issue of obscene content.

Customs Regulations.—As part of the general revision of the Customs Regulations, two parts were adopted and three parts consolidated.

In addition to the revision of the regulations, 48 notices of proposed rule making, 55 Treasury decisions, and 12 manual amendments were prepared. Some of these amendments dealt with designating or revoking ports of entry, extending port limits, adding organizations to the list of public international organizations, and implementing the time for review of protests with respect to merchandise excluded from entry or delivery.

Trademarks, copyrights, and patents.—There were recorded 235 trademarks, service marks, renewals, assignments and name changes; 75 copyrights; and 6 patent surveys or renewals. A total of $40,260 of recordation and related fees was collected for these services.

International operations

Customs participation in international conferences during fiscal year 1974 increased, with the greatest percentage of meetings continuing to be under the Customs Cooperation Council. Customs also actively participated in the work of the Inland Transport Committee of the U.N. Economic Commission for Europe.

The U.S. Customs Service hosted an international meeting of the heads of Customs investigative services under the auspices of the Customs Cooperation Council in Washington, D.C., October 29 to November 2, 1973. More than 80 delegates, representing 44 nations and 5 international organizations, participated. The discussions promoted effective collaboration at the international level among customs investigative organizations.

On August 23, 1973, Assistant Secretary of State Willis C. Armstrong, and Commissioner of Customs Vernon D. Acree, representing the United States, signed a Customs Mutual Assistance Agreement with representatives of the Federal Republic of Germany. The agreement fosters close cooperation between the customs services to ensure more effective prevention and investigation of offenses against customs laws.

Top-level customs and border patrol officials from Argentina, Brazil, Bulgaria, Netherlands Antilles, Romania, and Yugoslavia were given observational training in various Customs border ports throughout the United States for periods ranging from 1 week to 1 month.

A customs adviser was sent to Quito, Ecuador, and a customs advisory team to Bangkok, Thailand. Another position of customs adviser was established for Guayaquil, Ecuador.

Under CCINC Program II, Customs conducted five sessions, each consisting of 5 weeks of training in the United States for students from 20 different foreign countries. In addition, training programs under the foreign customs program were conducted with 25 students from 13 different foreign countries receiving management, instructor, and antinarcotics skills training. Under CCINC Program III, in-country training was given in 21 foreign countries to 1,220 customs and border control enforcement officers. This training is designed to improve enforcement operations against smuggling of narcotics and other contraband. Particularly noteworthy were the training efforts in the Eastern European countries of Yugoslavia and Bulgaria and the securing of commitments for future programs in Romania and Czechoslovakia.

Permanent overseas advisers to military commands were placed in Frankfurt, Thailand, Korea, Japan, Philippines, and Guam.

A management information expert assisted in the development of a complete management information system for the Government of South Vietnam.

Management improvement

Cost management information system (COMIS).—A study was initiated to develop and implement a cost management information system. The system will provide budgeting, planning and accounting information and furnish reports to managers for use in day-to-day operations. A study team representing all areas of administration and operations, plus a consultant from GAO, began to identify users' requirements. The system is scheduled for implementation in July 1975.

Investigative program analysis (IPA).—IPA, which provides manpower utilization and case accomplishment data useful to management of Customs investigative programs, went into effect on April 1, 1974.

Regional management team concept.—To further improve coordination among Customs field programs, principal Customs field managers, functioning as a regional management team, met on a regular basis to discuss common problems, resolve conflicts in priorities, exchange information, and insure coordinated action by all Customs employees within a region.

Administrative

Accounting.—Customs appropriation accounting system was further refined through the establishment of controls over obligations, expenditures, reimbursements, and financial plans of the nine regional offices by functional area. Responsible headquarters and field officials were thus made more aware of costs in their areas of concern and provided a better evaluation of competing demands upon Customs limited resources.

Headquarters control of travel advances was automated, simplifying reconciliations between individual advance cards and the travel advance control account, alerting management officials to delinquent and excessive advances held by employees under their supervision.

A new manual for field personnel with the necessary accounting and reporting procedures for all types of reimbursement was prepared. It incorporates all existing instructions on reimbursements under the work ticket system, user charge system, and other types of reimbursements currently covered in the Customs accounting manual and headquarters circulars.

Customs received and is placing in operation 96 cash register machines to replace bank-type validating machines in high-volume ports to handle the increased number of transactions. These machines have proved effective in controlling collections, expediting Customs traffic, and improving Customs image, and have saved a significant number of man-years nationally.

After thorough evaluation, it was determined that accounting machines for appropriation accounting and several other programs should be replaced by programmable terminals capable of data transmission via telecommunication. An award of contract was made in June 1974, with implementation targeted for December 1974.

Real-time data entry system (RETIDE).—RETIDE is designed to input entry and collection data from field offices to Customs central computer on a direct-line, real-time basis. The system was installed in the Baltimore district on November 1, 1973, and the New York Seaport area on May 28, 1974. The Baltimore installation has met expectations in achieving manpower savings and increased accuracy of input data; similar achievements are forecast for New York.

Equal opportunity.—Full-time equal opportunity officer positions were established and filled for all Customs regions. In headquarters, the Equal Opportunity Division was staffed with four additional equal opportunity specialists to handle the number of complaints being received and to promote affirmative action program measures.

A study to determine the feasibility of utilizing the services of minority-owned banks as depositaries for collections by Customs has resulted in an increase of such depositaries to a total of 7 since July 1, 1973. For fiscal 1974, the monthly dollar volume of deposits at these banks averaged $55 million.

Seven Papago Indians were appointed to the customs patrol program in New Mexico (Region VII) under a special appointment authority obtained from the Civil Service Commission.

Support of the 16-point program for Spanish-speaking Americans was stressed throughout the year. Sixteen-point coordinators were designated in headquarters and the nine regional offices. Many efforts have been made in the area of recruitment. Spanish-speaking employment in Customs rose from 653 in December 1972 to 889 in March 1974.

Facilities management.—A task force was established to develop an aggressive program for the upgrading of facilities at all locations on a systematic, time-phased basis. A facilities planning system was established and existing deficiencies documented, with first priority given to border ports of entry.

Collocation of Region II offices into New York's World Trade Center, the largest move of its kind in Customs history, was accomplished. Similar collocation in headquarters, Miami, Los Angeles, and San Francisco is planned for fiscal 1975.

Support of the customs patrol officer program included the procurement of aircraft, automobiles, jeeps, and 4-wheel drive vehicles by lease or purchase, in addition to the acquisition of night vision devices, photographic equipment, binoculars and related law enforcement items. In process is the acquisition of 19 boats, ranging from 18-foot U.S. Coast Guard Waterjets to 38-foot high-speed patrol craft. Seven boats were delivered, with 10 of the remaining 12 due for delivery early in fiscal 1975.

Management analysis.—Numerous organization studies and surveys resulted in increased effectiveness for Customs and the public.

Evaluations were conducted of the management analysis functions in the Boston, Miami, Los Angeles, New York, New Orleans, and Houston regions.

Customs received the Federal Paperwork Management Award, given by the Association of Records Executives and Administrators.

A management analysis conference was held in Washington at which management analysts from headquarters and the nine regions were present. Executive, Regional Commissioner, Assistant Regional Commissioner, and other conferences were held during the year.

A new Customs Correspondence Manual provided guidance in the preparation of customs documents and correspondence.

During the year, plans were formalized for the conduct of an audit and cost-benefit analysis of the ADP reports generated by the Headquarters Data Center. An inventory of all ADP-generated reports was completed and the basic cost for production of each report determined. Questionnaires solicited information concerning the usefulness of these reports from various headquarters offices. During fiscal 1975, the data gathered through these questionnaires will permit elimination of some reports and modification of others.

In the management by objectives program, Customs reported progress to Treasury and OMB on several Presidential and Secretarial objectives.

Personnel management.—The first stage of implementation of the automated skills inventory system, data collection and computerization on all employees GS–14 and above, was completed. Qualification requirements for executive and middle management positions are being identified by Customs managers and the resulting input will be incorporated into a software retrieval package for use in the Customs merit promotion plan.

During fiscal 1974, guidelines for the preparation and submission of the Customs training data forms were developed. These forms provided input for the annual automated training reporting system, implemented on July 1, 1974.

Onsite Spanish language training initiated in January and February 1974, at El Paso, Tex., and San Ysidro, Calif., gave instruction to a total of 103 students. Three new programs will be started in fiscal 1975 at Nogales, Laredo, and Brownsville.

During fiscal 1974, a completely new "Executive Manpower Development Program" was designed and will be issued as chapter 412 of the Customs Personnel Manual. Implementation is scheduled for early fiscal 1975.

A standard position description was developed for the senior customs inspector in accordance with the new classification standard. An implementation plan provided for the conversion of all current GS–11 customs inspectors to the new standard and set forth procedures for requesting additional senior inspector positions. The implementation of new positions is proceeding on a region-by-region basis. Survey teams will be dispatched for postaudits of senior customs inspector positions in the regions.

Approved by the Civil Service Commission February 7, 1974, the mail career ladder provided by the customs aid series, GS–1897, will open up professional careers for many employees formerly relegated to wage board or clerical positions with little hope for advancement.

This career ladder won commendation from the CSC for its innovative contributions.

Conversion of customs security officers to customs patrol officers was completed January 20, 1974. These additions to the patrol organization prompted a geographical realignment of positions which led to establishment of several new stations.

Labor-management relations.—The Customs Service labor-management relations program reached nearly 600 managers (first-line supervisors to top management personnel) in fiscal 1974, a greater number than had been trained in all previous years. A series of films was purchased to assist in future Service-wide refresher training.

Public information program.—To facilitate and insure voluntary compliance with customs laws, Customs carries out a communication and education program of nationwide scope designed to inform the public of Customs plans, programs, and policies. A total of 172 news releases, speech texts, factsheets, testimonies, etc., were distributed during the fiscal year. The Commissioner of Customs and other headquarters officials made some 26 speeches and presentations, and were involved in 9 interviews, briefing sessions, and press conferences.

As part of Customs continuing Bicentennial participation, four customhouses were designated as historic customhouses in commemoration ceremonies; they were Georgetown (D.C.), August 1, 1973; Boston, December 14, 1973; San Francisco, March 22, 1974; and Wheeling, May 23, 1974. In connection with these ceremonies, the Bureau of the Mint produced the first 5 in the series of 10 commemorative customhouse medals (see p. 155). The fifth medal, honoring the Savannah Customhouse, was unveiled at a special ceremony during National Maritime Week in Savannah, Ga., on May 24, 1974.

Local participation and coordination in Bicentennial era activities included the jointly sponsored Boston Customhouse commemoration, the first official event of the Boston 200's "Tea Party Weekend." An exhibit of historic customs documents and artifacts developed by the Boston regional office for display over a 3-year period was presented to the city during the ceremony.

Through arrangements with the U.S. Postal Service, commemorative postal cancellation slogans ran concurrently with the customhouse ceremonies in Washington, D.C. (for Georgetown), Boston, San Francisco, and Pittsburgh (for Wheeling).

A 2-year program of Bicentennial events, through December 1976, including customhouse ceremonies, commemorative medals, and exhibits was developed, with eight customhouse ceremonies currently scheduled for fiscal 1975.

Customs won an "Honorable Mention" in the Federal Editors Association Contest for its publication "Customs Hints for Returning U.S. Residents—Know Before You Go."

Ports of entry.—Fresno, Calif., and Wichita, Kans., were established as customs ports of entry. The Ports of Portland and Astoria, Oreg., and Longview, Wash., were consolidated into one port of entry entitled "Columbia River." The new Port of Dallas/Fort Worth was established to replace the single ports of Dallas and Fort Worth. The Ports of Elkin and Washington, N.C., and South Haven, Mich., were eliminated as customs ports of entry.

Security and audit.—The Internal Security Division accelerated security clearances for applicants, in order to reduce vacancies, by using an abbreviated full field investigation with a 5-day completion date. This investigation placed applicants on board quickly, with the total investigation to be completed within the prescribed 30-day time limit. During the year 1,304 full field investigations were processed. Of these, Customs conducted 937, while only 367 were conducted by Civil Service, representing a substantial savings in cost as well as time. Customs computerized security clearance system is the first and only such program in the Department of the Treasury.

In September 1973, the internal audit effort took a new direction, with audit field managers formulating audit plans on an annual basis.

Regulatory audit.—A regulatory audit staff consisting of 72 people located in the regional offices and at headquarters undertook a new program to perform third-party audits of customhouse brokers, assembly plants, conditionally free wool imports, importations from insular possessions, and drawback. In the 6 months since the program became operational, the Division accomplished audits of 11 item 807 assembly plants resulting in additional duty assessment in excess of $1,200,000; 1 audit involving importations from an insular possession resulting in additional duty assessment in excess of $750,000; and audits of 52 customhouse brokers that discovered violations resulting in additional duty assessments in excess of $340,000.

Customs laboratories activities.—As part of the Customs research and development programs, artificial nonpsychoactive materials were developed with properties identical to those of common forms of drugs in illicit channels. These "pseudo-narcotics" bear such a close resemblance to the real thing that preliminary assessments indicate they may be useful in training detector dogs, in place of the genuine drugs.

The program for upgrading of laboratory instrumentation moved ahead with the purchase of dual-channel flame ionization detector gas chromatographs for the New York and Chicago laboratories, a sophisticated gas chromatographic data handling system for Baltimore, and an atomic absorption spectrophotometer for the New Orleans laboratory.

Field laboratories performed a total of 191,770 analyses during the year, an increase of nearly 13 percent over the previous year.

UNITED STATES SAVINGS BONDS DIVISION

The U.S. Savings Bonds Division promotes the sales 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 E and H bonds is twice that of the marketable debt, 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, some 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.

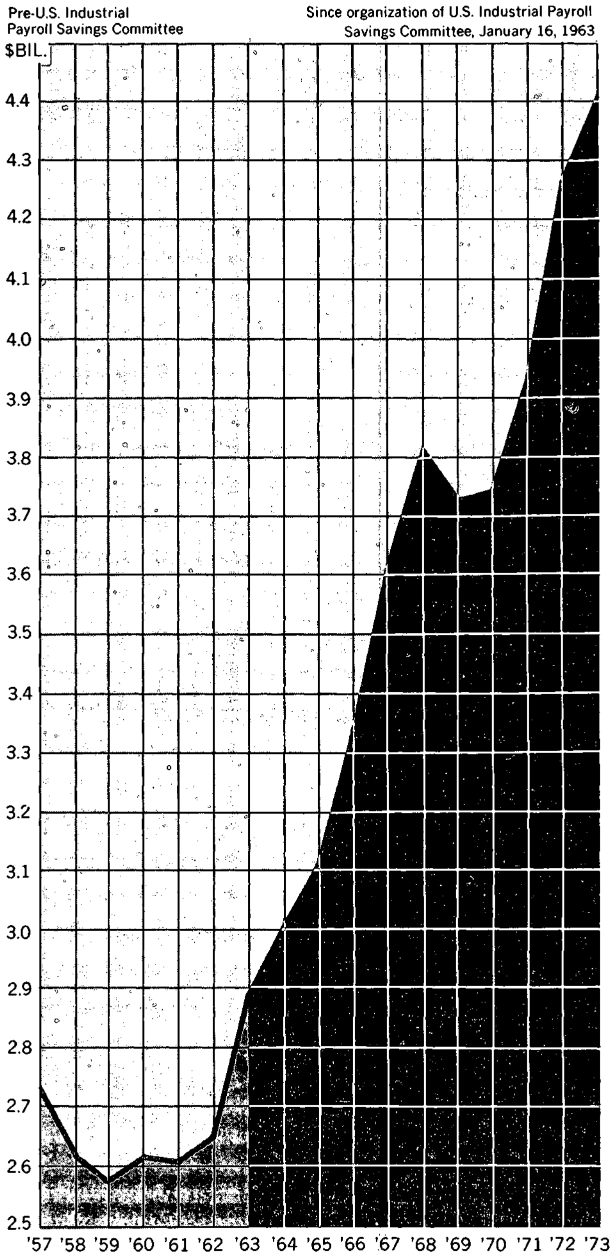
Sales of series E and H savings bonds totaled $6,429 million in fiscal 1974; reported participation in the payroll savings plan as of June 30, 1974, totaled close to 9½ million. There were $62.4 billion savings bonds and savings notes held at the close of fiscal 1974, nearly one-quarter of the privately held portion of the public debt. During fiscal 1974, holders of these savings vehicles received over $3 billion in interest.

The leader of the 1974 nationwide payroll savings campaign in industry is John D. deButts, chairman of the board and chief executive officer, American Telephone and Telegraph Co., and Chairman of the U.S. Industrial Payroll Savings Committee. The 1974 campaign was launched in Washington, D.C., on January 9, 1974, with the annual meeting of the Committee. Serving on the Committee with Mr. deButts are 11 former chairmen and 49 top executives of the Nation's major corporations.

Mr. deButts has contributed much time and effort to the campaign. He has traveled to 19 cities to address 26 meetings of business and community leaders, helping members of the Committee launch their area and industry campaigns. Mr. deButts met with the Business Council at its February 14 meeting in Washington to urge members to conduct payroll savings campaigns in their companies. On April 2, 1974, Mr. deButts appeared on the NBC television network "Today" show. Eighty NBC stations also presented their local volunteer leaders to further publicize the campaign. Mr. deButts provided sales tools for the volunteers and staff workers in the campaign, including a brochure for top executives and a sound motion picture in color entitled "A Sense of History." Mr. deButts also produced quarterly newsletters for volunteers and a press kit mailed to over 1,200 newspapers to publicize the campaign.

The U.S. Industrial Payroll Savings Committee has been the principal force in raising the sales of E bonds in the $25 to $200 denominations to $4.4 billion, more than $1.7 billion higher than in 1962 before the Committee was formed. This is dramatically portrayed in the accompanying chart showing 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)



*Includes Freedom Shares purchased through Payroll Savings in combination with E Bonds from May, 1967 through June 30, 1970

The U.S. Industrial Payroll Savings Committee was given a charter in 1973 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 called upon the Committee to continue to implement "suitable approaches toward expanding the payroll savings plan with their industrial peers." This the members are doing. They urge the chief executives in their areas and industries to conduct payroll savings drives, and set strong examples by the campaigns they conduct in their own companies. Through June, six Committee members had completed their company campaigns and had enrolled over 144,000 employees as either new savers or for increased allotments.

The annual savings bonds campaign for Federal employees was conducted during the spring months. Headed by Secretary of Agriculture Earl L. Butz, the Interdepartmental Savings Bonds Committee conducted one of the most intensive campaigns in recent years. In preparing for the 1974 campaign, a comprehensive survey was made of all the larger Federal agencies to obtain recommendations for improving the 1974 campaign. As a result, several suggestions were adopted that materially helped in the attainment of the Committee's goals.

This year's campaign theme, "Share a Common Bond," was incorporated in all promotional material, including posters, canvassers guides, and employee leaflets. This added a high degree of professionalism to the drive and received the plaudits of several Cabinet members.

The highlight of this year's campaign was the change in policy by the Department of Defense regarding individual canvasses of civilian and military employees in the Armed Forces. For the first time since 1968, all branches of the Armed Forces are now authorized to conduct such canvasses throughout the military establishment. This change had tremendous impact on the Federal campaign this year with sizable numbers of new savers and increases obtained. An even greater potential exists in this area for the 1975 campaign.

The Federal establishment annually produces about $1 billion in payroll savings sales, with a total work force of approximately 2½ million civilian employees and over 2 million military personnel.

The volunteer 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 October 31. Sessions were presided over by North Carolina chairman Bland Worley, vice chairman of the board, Wachovia Corp., and ABA Chairman W. Jarvis Moody, president, American Security and Trust Co. of Washington, D.C.

During the fiscal year, four new State chairmen were appointed for 2-year terms, and three were reappointed.

All State Governors are serving as honorary chairmen of State savings bonds committees. They play an important role by providing leadership for State employees in each State's savings bonds program.

Organized labor continued its strong support of the savings bonds program under the direction of George Meany, president of the AFL-CIO, acting in the volunteer capacity of National Labor Chairman. The following statement by Mr. Meany in April, sent to over 550 major labor publications throughout the United States, clearly reaffirms labor's support of the savings bonds program:

"The American Labor movement has supported the U.S. Savings Bonds Program from its very beginning. As concerned citizens, we consider support of this program a duty to our country, and take pride in our association with it.

"In addition to patriotic reasons, we support the program because it provides workers with an opportunity to save regularly and automatically through participation in the Payroll Savings Plan.

"Therefore, we of the AFL–CIO have a special interest in the Savings Bonds Program and continue to urge all union members to 'Take Stock in America' by joining this program of investment in the future of our country."

Other active labor support included resolutions of support adopted by State federations of labor, local labor councils and local unions. Numerous statements were issued by national, State, and local labor officials in support of payroll savings campaigns. Much of this support was communicated to the membership by the labor press through the use of ads, editorials, open letters of endorsement, and news stories about savings bonds.

Public service advertising support for the bond program continued strong, with daily newspapers contributing some 16,500 individual ads during calendar 1973, and magazine linage up substantially over the previous year. The campaign, which is carried in all major media, is under the auspices of the Advertising Council, which estimates the annual value of such advertising in excess of $63 million.

A new historical film, "An American Partnership," was produced by Warner Brothers during the fiscal year and will be widely shown at service clubs, national organizations meetings, and other volunteer gatherings. It traces the Nation's history since 1776 in terms of citizen participation in Government borrowings, and is timed for release as a Bicentennial feature.

Lucille Ball and the cast of the "Here's Lucy" TV series are featured in a special film for the training of payroll savings canvassers in the 1974 campaign. Other motion picture industry participation includes a campaign trailer for nationwide theatrical showing, starring Charlton Heston. It was produced as a public service by Universal Pictures under the auspices of Lew Wasserman of MCA, motion picture chairman of the U.S. Industrial Payroll Savings Committee.

The star of the "Kojak" series on CBS–TV, Telly Savalas, was featured at the kickoff rally of the 1974 payroll savings campaign in the Federal Government, and was appointed as honorary chairman of the drive.

Planning and strategy meetings were held in Washington during the last half of the fiscal year with officials of the Advertising Council and its volunteer task-force agencies and with the national Employee Communications Committee for Savings Bonds, a group which gives leadership to the program through company publications.

The new national organizations program was implemented—a five-point program for executive offices of national organizations and a seven-point program for their local units. The program at both levels was successful, resulting in greater activity by these organizations on behalf of the savings bonds program. More than 100,000 individual pieces of promotional material were requested by local units for use at club meetings and in community projects and conventions. National and State publications of these organizations published ads, articles, cartoons, and testimonials. Special awards were presented to Brith Sholom, Business and Professional Women's Club, Inc., Kiwanis, Lions, National Exchange Clubs, National Grange, and the Soroptimist for their promotion of the savings bonds program.

A new chairman of the National Organizations Committee was appointed—Mrs. Valerie F. Levitan, executive director of Soroptimist. Mrs. Levitan presided over a meeting of the national organizations steering committee. The purpose of the meeting was to discuss ways in which national organizations participation in the savings bonds program could be increased.

The Office of Public Affairs developed and distributed a series of packages for media use, including an "Answers to Inquiries" package distributed to the daily press in April. A pocket-size kit, "In Which We Serve," designed for volunteers, was also distributed in April.

A joint meeting of the National Committee of Newspaper Publishers and National Panel on Public Relations for Savings Bonds was held in November. Participants—along with the Secretary, Deputy Secretary, and Under Secretary for Monetary Affairs—included financial writers Sylvia Porter, John Cunniff, Sam Shulsky, and Peter Weaver. The first session was chaired by outgoing Chairman Charles L. Gould, publisher, San Francisco Examiner; the second by outgoing Chairman Denny Griswold, publisher and editor, Public Relations News, New York. New chairmen for the groups are Robert Letts Jones, president, Copley Newspapers, Inc., La Jolla, Calif., and Joseph F. Awad, general director/public relations, Reynolds Metals Co., Richmond, Va.

A selection of "May Day" editorials, marking the 33d anniversary of the bond program, developed by the Office of Public Affairs, was utilized by leading newspapers throughout the country.

Public Affairs revised and updated several factual publications, including "E" and "H" informational folders, "U.S. Savings Bonds—A Quick-Reference Guide," and "Annual Report of Progress." The publication "U.S. Savings Bonds—A Good-Service Manual" was updated and distributed to banks and other financial institutions.

Continuing collaboration with leading financial writers and editors sparked significant coverage in leading magazines and newspapers. For example, Ms. Margaret Daly's feature in the November 1973 issue of Better Homes and Gardens resulted in more than 4,100 inquiries.

Program planning

In the 9 years that the EDP program has been in operation, the system has matured and improved to the extent that it is now an indispensable management tool. The centralized collection and publication of payroll savings statistics has relieved the State offices of many hundreds of hours of clerical time and provides a meaningful picture of the payroll savings program which is utilized at the national, regional and State levels to formulate sales plans each year. It is the sole source of data used in establishing payroll savings goals on State, area, and county bases.

At the end of fiscal 1974 the number of reporting units (companies that operate the payroll savings plan) on the EDP tapes was 39,350, which represents 21,526 interstate units (including branches of companies) and 17,824 intrastate companies. Total employment in these companies is shown as 27,054,610. The number of employees signed up to buy savings bonds in these companies is 6,760,941, or 25 percent.

Management improvement

In a two-phased reorganization completed on the first of January 1974, the Division restructured its chief operating elements from 11 market centers to 7 regions covering the entire United States. The regional structure conforms substantially with the proposed Federal Regional System, taking into account, however, the marketing principles that dictate regional and State headquarters be located in areas of prime population and high economic activity. The reorganization has achieved a narrower span of control leading to more effective headquarters management control. A peripheral benefit of the reorganization has been the contraction of staff by the elimination of offices in five States of relatively low productivity. These areas are now serviced by adjacent States with a stronger emphasis on volunteer support where there is no resident paid staff. In line with other personnel practices, the Division, though smaller in size, during the course of the reporting year has made better use of its employees through the redevelopment of its promotional staff to the areas showing the greatest market potential, and lowering the ratio of clerical employees to professional personnel where such action does not impair the capability of its promotional efforts in the field.

Internal audit program

During the reporting year the internal audit program covering field activities was completely curtailed upon the recommendation of the departmental internal audit staff. In lieu of the former program, it has been proposed that a series of field visitations be inaugurated under professional staff leadership from headquarters.

Under its agreement with the Bureau of the Public Debt, Public Debt's staff auditors completed a study of payroll savings activities in the Division. Their recommendations, leading to improved accounting practices, were generally adopted.

Staff development

The Division is in the final 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, recently graduated college students and persons promoted through the upward mobility program are trained for key sales promotion, managerial, and administrative positions. A new program of sales instruction/training—"20-Point System for Guaranteed Sales Success" by Dartnell-Anderson—was acquired for new promotional employees unable to attend an indoctrination course for 6 to 10 months after entering on duty. This course will also be used as a refresher course for veteran promotional staff members.

A line management training program entitled "How to Improve Individual Manager Performance," prepared by the American Management Association, was continued in fiscal 1974. A management library, publicized quarterly, was established and has been extensively used by all staff members. During fiscal 1974, 9 of 14 persons selected for the executive development program were given detail assignments which acquainted them with duties of higher level positions while 5 of the 14 attended courses presented by the Civil Service Commission, Department of Agriculture Graduate School, and Advance Management Research, Inc.

All executive level personnel have received introductory level instruction on the implementation and operation of the management by objectives program. This instruction was preparatory to the installation of an MBO program during fiscal 1975.

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 include protection of 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 or 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

Assignments to protect foreign dignitaries increased to 140 in fiscal 1974, compared with 110 in fiscal 1973. This increase was largely attributable to terrorism and general worldwide security problems. In addition, 11 official representatives of this country performing special missions abroad received Secret Service protection at the direction of the President.

The Secret Service also provided protection for Speaker of the House Carl Albert, former Vice President Spiro T. Agnew, Vice Presidential nominee Gerald R. Ford, Secretary of State Henry A. Kissinger, Secretary of the Treasury George P. Shultz, and Deputy Secretary of the Treasury William E. Simon.

Secret Service protection for Caroline Kennedy was terminated on November 27, 1973, the date of her 16th birthday.

During fiscal 1974, extraordinary manpower, logistical, and other problems were encountered in planning and providing protection during Secretary of State Kissinger's numerous Middle East visits, the President's trip to Russia, and his five-nation tour of the Middle East.

Legislation passed by both Houses of Congress designated the premises now occupied by the Chief of Naval Operations, located within the Naval Observatory grounds, as the official temporary residence of the Vice President, effective upon the termination of service of the incumbent Chief of Naval Operations, July 1, 1974.

On June 8, 1974, President Nixon signed Public Law 93–305, which makes appropriated funds of the Secret Service available to provide protection to the immediate family of the Vice President of the United States.

The Executive Protective Service provided protection for the White House, buildings housing Presidential offices, and 127 foreign diplomatic missions located at 295 locations in the metropolitan area of the District of Columbia. In addition, protection was 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.

Three cases in point were the Organization of American States conference in Washington, D.C.; the 28th annual General Assembly of the United Nations in New York City; and continual coverage for selected foreign missions to the United Nations in New York City.

During fiscal 1974, the Secret Service requested a supplemental appropriation for an additional 180 Executive Protective Service officers and 5 support personnel. At the close of fiscal 1974, the House and Senate Committees on Public Works were considering a bill to increase the authorized size of the Executive Protective Service from 850 to 1,200 officers.

Protective intelligence

During fiscal 1974, the Intelligence Division implemented a long-range plan to replace special agent personnel performing analytical work in protective intelligence with intelligence research specialists. At the end of the year, the Secret Service employed 11 intelligence research specialists, 10 of whom are women.

The Technical Security Division improved the screening procedures for packages, briefcases, and courier material entering the White House complex through the use of additional and improved fluoroscopic equipment at certain entrances. This equipment has been installed in the Secret Service mailroom and has been ordered for the Main Treasury Building. A fresh water supply monitoring system for the White House was installed and became operational.

A program was initiated to prepare and distribute hazardous device posters to all Secret Service offices. A technical library on explosives and hazardous devices used by terrorists was established in this Division. A project, coordinated with the National Park Service, was started to reinforce the perimeter gates of the White House to prevent a vehicle from crashing the gates and entering the White House grounds.

The Visual Information Branch of this Division produced a program entitled "Executive Protective Service Recruitment" and a second program entitled "United States Secret Service: An Organizational View."

Plans proceeded to produce models of sites normally encountered on protective assignments for use in training special agents.

Cooperation between the Secret Service and the Bureau of the Public Debt and the Internal Revenue Service in the use of computers for data transmission has improved the data processing cycle.

Stolen series E savings bond information is now entered into the National Crime Information Center (NCIC) days in advance of the manual method. In addition, stolen unregistered Department of the Treasury securities totaling over $85 million in value have been entered into the NCIC.

Submission of biweekly magnetic tapes by the IRS of personnel accounting data has permitted the Secret Service to maintain an automated personnel file for the generation of special organizational and analytic reports.

Investigative responsibilities

For the second consecutive year, counterfeiting activity decreased. While counterfeiters produced a total of $21.4 million in counterfeit currency, down 15 percent from the preceding year, losses to the public amounted to only $2.43 million, a significant drop of 27 percent from fiscal 1973, and down $2.4 million (50 percent) from the record high of $4.8 million successfully passed during fiscal 1972. Seizures during the current fiscal year reached $19 million or 89 percent of the counterfeiters' total output.

Thus, while the counterfeiter is now producing 20 percent less than he did 2 years ago, his sales have dropped 50 percent. This success is due in large part to the Service's present ability to respond to significant investigative leads promptly and with the necessary manpower and resources.

Counterfeiting investigations

To illustrate, among 56 plant operations successfully suppressed by the Service since July 1973 were 22 responsible for producing over $100,000 each. Losses to the public due to these operations were held to $377,000, with $11.9 million (97 percent) of the total output of $12.3 million being seized before it reached circulation. Twenty-two major conspiracies are shown below.

Month suppressed	Location	Seized	Passed on the public	Month suppressed	Location	Seized	Passed on the public
1973				*1973*			
July	Los Angeles, Calif.	$121,700	$1,600	December	Riverside, Calif.	$822,920	None
July	Waupin, Wis.	204,480	1,840	December	Cleveland, Ohio	913,500	$19,100
July	Modesto, Calif.	134,620	20	December	Newark, N.J.	313,160	39,100
July	St. Louis, Mo.	230,710	None	*1974*			
August	Dallas, Tex.	115,740	11,140	January	Houston, Tex.	1,500,400	None
August	San Francisco, Calif.	1,123,720	680	January	Costa Mesa, Calif.	460,970	4,550
				February	Willard, Ohio	106,070	2,400
September	Miami, Fla.	1,017,655	31,075	February	Anderson, Ind.	1,346,050	243,015
September	Venice, Calif.	841,000	None	February	Newark, N.J.	129,250	1,400
October	Reno, Nev.	120,200	100	March	Sun Valley, Calif.	175,120	14,740
October	Campbell, Calif.	727,280	4,160	April	Sacramento, Calif.	104,800	420
December	Los Angeles, Calif.	914,300	2,140	June	Cincinnati, Ohio	496,960	None

Following are details of illustrative cases.

In July 1973, a portion of a printing plate containing the serial number of a Federal Reserve note was found near a printing plant in Modesto, Calif. On July 5, a counterfeit $20 Federal Reserve note was passed in Fresno, Calif. That counterfeit $20 note contained the same serial number that had been found on the printing plate in Modesto. Surveillance of the suspect printing plant resulted on July 13, in the arrest of two persons while in the process of manufacturing counterfeit $20 Federal Reserve notes. Over $130,000 worth of the notes was seized, along with the plates and negatives. By the end of fiscal 1974, only the one counterfeit $20 note from this plant had been passed on the public. The conspirators each received 3-year sentences.

During January of 1974 an informant advised the Houston office that an individual was in possession of counterfeit $100 notes. On January 16, an undercover agent was introduced to the suspect and, after receiving 11 counterfeit $100 Federal Reserve notes, arrested him. Search warrants were obtained and over $1.4 million dollars in counterfeit $100 notes and the plates and negatives were found in his residence and in a safe-deposit box. None of these counterfeit notes was passed on the public. The defendant was sentenced to 15 years in prison for this offense.

During January of 1974, an informant advised the Service's Los Angeles office that an individual was attempting to distribute counterfeit $50 notes. A special agent, acting in an undercover capacity, was introduced to the suspect and purchased $2,000 in counterfeit $50 Federal Reserve notes. At this time arrangements were made for a larger delivery. On January 23, the suspect was arrested as he delivered $57,000 in counterfeit $50 and $20 notes to the undercover agent. He surrendered $150,000 in counterfeit $50 and $20 notes. The suspect implicated two others of Costa Mesa, Calif., as the printers of these counterfeit notes, and arrangements were made for an undercover agent to meet with one of them and obtain $120,000 in counterfeit currency. He was arrested while making this delivery, and a search warrant was executed which resulted in the seizure of an additional $116,000 and all plates and negatives. The third conspirator was arrested and admitted to being the printer of the subject notes. Over $450,000 in counterfeit currency was seized with a loss of only $4,000 to the public. Each defendant was sentenced to 5 years' probation.

Check forgery

During fiscal 1974, 64,363 checks were received for investigation, an increase of 9 percent over fiscal 1973. With the Department of the Treasury having issued approximately 708 million checks during fiscal 1974, only 1 of every 12,000 checks paid required investigation.

Arrests for check forgery increased from a previous record of 4,591 in fiscal 1973 to a new high of 5,465 in fiscal 1974. The backlog of pending check cases increased 17 percent over fiscal 1973, from 30,045 to 35,006, due in part to the increase in referrals and to the number of cases pending judicial action.

The overall improvement in check forgery arrest statistics may be attributed to the increase in the availability of manpower for assignment to this activity; the continuation and expansion of the forgery squad system in the Service's major offices; and priority emphasis on the investigation of those who forge and negotiate two or more checks. The early identification and arrest of multiple forgers is the basic deterrent affecting the volume of cases because of those forgers' potential, if not apprehended.

The newly established procedure of retaining original checks within the Forgery Division in all cases referred to the Service provides ready access to the original checks for laboratory examinations, judicial proceedings, and general investigative needs.

Despite the implementation of the supplemental security income program in January 1974, which increased the number of checks issued by the Government by approximately 4 million per month, the number of forged-check referrals has not increased proportionately yet. However, during the last quarter of fiscal 1974, a significant increase in the number of referrals involving supplemental security income checks did occur and probably indicates continuing increases during fiscal 1975.

The number of cases of fraudulent IRS returns to obtain refund checks has increased. Additionally, bulk thefts of Treasury checks from the Postal Service, major mail distribution facilities (e.g., military bases), disbursing offices, and issuing agencies also increased during fiscal 1974. These multiple thefts have resulted in greater fencing activities and multiple check forgery cases. Countermeasures, including undercover agent action, extensive surveillances, and close liaison with other interested agencies, have succeeded in blunting the overall effect of these major thefts and criminal schemes.

Check cases

Following the return of numerous checks bearing second endorsements in a single name, the endorser was identified as the owner and operator of an auto service in Long Beach, Calif., where he was located and interviewed by agents of the Los Angeles field office. The suspect maintained that each of the checks bearing his endorsement had been obtained from customers for automotive repairs. However, he was unable to produce any supporting work records. Reliable informants revealed that the suspect was well known among forgers as a fence who bought Treasury checks, Los Angeles County checks, and other negotiable instruments at a discount. As owner and operator of a business, he would negotiate these items through various victim endorsers and would only second endorse the checks and not forge any of the documents. Arrested on August 3, 1973, he denied that he knew any of the checks were stolen when he received them and claimed he was attempting to repay the various losing endorsers. On August 6, the defendant appeared before the U.S. magistrate and was released on bond. On October 4, he told an undercover special agent, introduced to him by an informant, that he had been running checks through his business; however, now that the U.S. Treasury had a case on him, he was glad he had a new outlet for his checks. He sold the undercover agent two Los Angeles County checks which were later determined to have been stolen from the mail.

On October 23, a Federal grand jury returned a 44-count indictment, to which the defendant pleaded not guilty. At his trial on December 11, he changed his plea to guilty on three counts, which included both 18 U.S.C. 495 and 18 U.S.C. 1708. The aggregate value of the Treasury checks involved was $16,530. On January 7, 1974, the defendant was sentenced to 3 years in custody of the Attorney General. However, execution of sentence was suspended and he was placed on 3 years' probation, with the condition that he spend the first 6 months of his sentence in jail.

In another case, on October 17, 1973, an agent of the Secret Service interviewed the manager of a drugstore in Racine, Wis., regarding the negotiation of 12 checks. He was unable to provide meaningful information, except that, if the name of the payee sounded familiar to him, he approved the check. On October 25, an officer at the First National Bank and Trust of Racine notified the investigating agent that the owner of the drugstore had a proprietorship account which had been charged for approximately $3,684 in U.S. Treasury checks returned for having forged endorsements. The owner had been murdered the evening before. As the investigation expanded, it became apparent that the only person known to have gained from the owner's death was the manager of the drugstore. A confidential source identified several individuals who stole the checks from the mails and then transferred them to the manager through a go-between. The widow of the deceased owner stated that her husband on several occasions had told the manager to cash checks only for known customers and had intended to dismiss him. One of the persons arrested on the check charges admitted that he would take a group of checks directly to the manager at the drugstore and would receive between 50 percent and 60 percent of the face amount of the checks. He, in turn, would pay off those persons who supplied him with checks. He stated that the manager said it would be worth $10,000 to anyone who would murder the owner because the owner was planning to fire him for accepting the forged checks. Subsequently the manager was arrested for his involvement in the murder of the owner.

Bond forgery

Bond forgery investigations decreased during fiscal 1974 with 13,163 bond investigations being opened compared with 13,849 in fiscal 1973, 15,905 in fiscal 1972, and 22,193 in fiscal 1971.

Bonds, stolen throughout the country by various means, including bank robbery, office and house burglary, and mail theft, repeatedly show up in the hands of known fences of stolen securities in large metropolitan areas. At the end of the fiscal year, there were approximately 600,000 stolen bonds, representing a face value of $42,000,000, entered into the National Crime Information Center (NCIC) by the Secret Service, compared with approximately 550,000 bonds at the end of fiscal 1973. Each of these bonds represents a potential loss to the Government if presented for redemption.

During fiscal 1974, 210 persons were arrested for bond forgery, surpassing the previous record established in fiscal 1973 when 187 persons were arrested. Investigation established that many of those arrested had connections with known organized crime figures.

The Secret Service returned to owners, prior to redemption, 12,386 stolen bonds with a face value of $1,079,925.

Illustrative of this type of investigation was a case which began on January 9, 1973, when two armed men robbed a citizen in Lackawanna, N.Y., of 584 bonds—face value $37,350. No suspects were developed by the police. On April 13, the Palo Savings Bank, Palo, Iowa, was burglarized and numerous safe-deposit boxes were ransacked. Approximately 600 bonds—face value $24,000—were taken. During the summer of 1973, a number of these bonds were redeemed in Ohio and Pennsylvania by an unidentified man. On October 24, in Lexington, Ky., an individual attempting to redeem six bonds registered to the victim in Lackawanna fled when the bank teller requested additional identification. The bank contacted the Louisville Secret Service office, and the rightful ownership of the bonds was determined. Banks in the area were alerted. The following day, an arrest was made in a Cincinnati, Ohio, bank after some of the stolen bonds were presented for redemption. The suspect was identified as the same person who attempted to redeem the bonds in Lexington and was also identified through handwriting and from bank surveillance photographs as the forger of the bonds stolen from the Palo, Iowa, bank. The defendant pleaded guilty and was sentenced on March 6, 1974, to 3 years' imprisonment. He was identified as the forger of 623 bonds—face value $35,875.

Securities

In September 1973, the Secret Service implemented an NCIC entry program through its communications facilities. Pertinent data concerning lost or stolen marketable securities issued by the Treasury is furnished to the Forgery Division by the Bureau of the Public Debt and entered into NCIC. "Hits" on this program are handled administratively by the Forgery Division and pertinent law enforcement agencies are contacted.

At yearend there were 4,856 securities with a face value of $87,480,636 entered in NCIC under this program.

Identification Branch

The Identification Branch of the Special Investigations and Security Division provided increased scientific and technical assistance in criminal investigations to agents in Secret Service field offices during the past fiscal year. Furnishing forensic support for the protective and investigative units, the Questioned Document and Fingerprint Sections conducted examinations of handwriting, handprinting, fingerprints, palmprints, typewriting, striations, and related analyses.

During the 12-month period ending May 31, 1974, the Questioned Document and Fingerprint Sections closed 7,431 criminal cases. This was an increase of 2,732 cases (or approximately 58 percent) over the preceding 12-month period. A total of 420,903 exhibits were examined, with 2,503 positive identifications reported. Identification Branch personnel appeared in courts throughout the Nation on 270 occasions to furnish testimony in support of their findings.

Treasury Security Force

The Treasury Security Force is a specially trained, uniformed division of the Secret Service, with responsibility for the protection of life and property as well as the continuous security of the Main Treasury and Annex Buildings. The Force also contributes to the protection of the White House complex, the Secretary, and others.

During the year, the Force investigated 87 serious violations and arrested 45 persons for crimes ranging from forgery and burglary/

larceny to narcotics violations and concealment of weapons. Twelve persons considered to be of protective interest to the Service were detained and interviewed by the Force.

Organized crime

The Secret Service, in conjunction with the Department of Justice, actively participated in the organized crime strike force program. The responsibility for organized crime investigations and the gathering of related intelligence, within the investigative jurisdiction of the Service, lay with 18 special agents assigned to various strike forces throughout the Nation. They were supported by an intelligence research specialist, at headquarters, Washington, D.C., who coordinated and disseminated intelligence, as well as maintained control of the "racketeer profile" and related computerized information.

At yearend organized crime agents were involved in 67 separate organized crime investigations. Other Secret Service field agents support the organized crime effort as needed, with a total of more than 108,000 man-hours, or approximately 52 man-years, expended during fiscal 1974.

Training

There were 75,040 man-hours of training conducted by the Office of Training for personnel engaged in investigative, protective, and administrative functions. In addition, 44,800 man-hours of interbureau training, 10,618 man-hours of interagency training, and 7,871 man-hours of nongovernment training were completed, for a total of 138,329 man-hours.

The Secret Service provided all firearms training for students of the Consolidated Federal Law Enforcement Training Center (606 students from the Criminal Investigator School and 457 students from the Police School). In addition, firearms training was provided to 72 special agents of the Bureau of Alcohol, Tobacco and Firearms; 57 Customs employees; 377 U.S. Park Police Officers; 4 special agents of the U.S. Information Agency; 55 special agents of the Internal Revenue Service; 14 special agents of the Department of Commerce; 45 U.S. Marshals; 30 U.S. Park Rangers; 350 correctional officers from the District of Columbia Department of Corrections; 8 special agents of the Immigration and Naturalization Service; 12 couriers for the White House Communications Agency; and enforcement personnel of the Secret Service.

An instruction team conducted inservice training on site for the uniformed special officer details assigned to Presidential residences and those of former Presidents. To standardize firearms instruction and disseminate firearms policy, selected special agents from all field offices attended a 3-week instruction course, which also included emergency medical techniques.

Secret Service briefings on protective operations were given to 262 participants from local, State, and Federal agencies. Thirty participants from State and local police agencies attended the questioned document course.

Supervisory seminars were conducted for Special Agents in Charge and Assistant Special Agents in Charge. An advanced driving course was established for special agents assigned to protective divisions.

During fiscal 1974, the Office of Training developed a management training program that insures regularly scheduled training for all supervisors, managers, and executives. This program will serve as a base for each individual's training throughout his career.

Administration

Renewed emphasis was placed on continuous planning for the future needs of the Secret Service. An Assessment and Development Staff, composed of representatives from each of five major headquarters offices, was established to evaluate existing programs, examine current and future plans, and anticipate and assess changes affecting the organization.

The use of word-processing equipment was significantly expanded. Automatic typewriters were installed in headquarters as well as in major field offices. Benefits included a reduction in clerical costs, an upgrading of the quality and quantity of documents processed, and a reduction in the time required for document preparation.

A comprehensive, automated financial accounting system was implemented on July 1, 1973. By November 30, 1973, all outstanding transactions of previous years were entered into the new system and maintained by it. This system permits greater analysis of obligations and outlays, close monitoring of actual obligations against the programmed obligations of the financial plan, and confirmation that funds are being utilized as planned in the budget. These improvements have greatly facilitated the budget formulation and execution processes.

An automated property accounting system was designed to meet the needs of program managers as to the location of equipment and the general Government requirements for the distribution of costs and depreciation. It is expected to be fully operational in fiscal 1975.

Accounting records were placed on microfilm during the second half of fiscal 1974. Payroll records will also be on microfilm by the beginning of fiscal 1975.

The Personnel Division established a system of entrance and exit interviews for employees designed to evaluate recruitment actions and increase employee satisfaction.

In connection with its safety program, the Secret Service developed a driver training course to instruct agents in evasive and defensive driving techniques on a test track. This course also includes classroom instruction and all agents are expected to participate.

In the area of records management, a comprehensive program was initiated for updating records disposal and retention. Designed to more accurately describe categories of records and designate appropriate disposition, the program will eliminate a greater quantity of obsolete records, with consequent space savings.

Inspection

A team headed by an inspector conducted a field study to determine the specific number of support personnel needed by type of position or series and the extent to which duties now performed by agent personnel could be performed by nonagent personnel. Other objectives were to determine the need for clerical support for resident agencies and to recommend staffing patterns for small-, medium-, and large-size offices based on the results of questionnaires completed by Special Agents in Charge. Visits were made to a representative number of offices to interview supervisory, clerical, administrative and agent personnel.

Also, during this fiscal year, a program was established for senior supervisors from the Office of Administration to accompany inspectors on selected office inspections. This enabled supervisors from that office to gain insight into the problems of field office operations.

EXHIBITS

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Public Debt Operations, Regulations, and Legislation

Exhibit 1.—Treasury notes

A Treasury circular covering an auction of Treasury notes for cash with prices established through competitive bidding is reproduced in this exhibit. Circulars pertaining to other note offerings during fiscal 1974 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. During the year there were no offerings in which holders of maturing securities were given preemptive rights to exchange their holdings for new notes.

DEPARTMENT CIRCULAR NO. 1–74. PUBLIC DEBT

DEPARTMENT OF THE TREASURY,
Washington, January 31, 1974.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites tenders at a price not less than 99.26 percent of their face value for $2,250,000,000, or thereabouts, of notes of the United States, designated Treasury Notes of Series C–1977. The interest rate for the notes will be publicly announced by the Secretary of the Treasury on February 4, 1974. An additional amount of the notes may be allotted by the Secretary of the Treasury to Government accounts and Federal Reserve Banks at the average price of accepted tenders in exchange for Treasury notes and bonds maturing February 15, 1974. Tenders will be received up to 2:00 p.m., Eastern Daylight Saving time, Wednesday, February 6, 1974, under competitive and noncompetitive bidding, as set forth in Section III hereof. The 7¾ percent Treasury Notes of Series C–1974 and 4⅛ percent Treasury Bonds of 1974, maturing February 15, 1974, 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, 1974, and will bear interest from that date, payable on a semiannual basis on May 15 and November 15, 1974, and thereafter on May 15 and November 15 in each year until the principal amount becomes payable. They will mature May 15, 1977, 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 Bureau of Government Financial Operations, Washington, D.C. 20222, up to the closing hour, 2:00 p.m., Eastern Daylight Saving time, Wednesday, February 6, 1974. Each tender must state the face amount of notes bid for, which must be $1,000 or a multiple thereof, and the price offered, except that in the case of noncompetitive tenders the term "noncompetitive" should be used in lieu of a price. In the case of competitive tenders, the price must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 99.26 will not be accepted. Fractions may not be used. Noncompetitive tenders from any one bidder may not exceed $500,000.

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, including the right to accept less than $2,250,000,000 of tenders, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the average price[1] (in two decimals) of accepted competitive tenders.

4. All bidders are required to agree not to purchase or 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 2:00 p.m., Eastern Daylight Saving time, Wednesday, February 6, 1974.

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, 1974, at the Federal Reserve Bank or Branch or at the Bureau of Government Financial Operations, Washington, D.C. 20222, in cash, securities referred to in Section I (interest coupons dated February 15, 1974, 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 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

[1] Average price may be at, or more or less than 100.00.

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 are not required to be assigned if the notes 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 notes, 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. Notes 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 Treasury Notes of Series C–1977 in the name of (name and taxpayer identifying number)." If notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for coupon Treasury Notes of Series C–1977 to be delivered to ------------------." Securities tendered in payment should be surrendered to the Federal Reserve Bank or Branch or to the Bureau of Government Financial Operations, Banking and Cash Management, 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 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.

Summary of information pertaining to Treasury notes issued during fiscal year 1974

Date of preliminary announcement	Department circular		Concurrent offering circular No.	Treasury notes issued (all auctioned for cash)	Accepted tenders			Limit on noncompetitive tenders	Issue date	Maturity date	Date tenders received	Payment date [1]
	No.	Date			Average price	High price	Low price					
1973		*1973*							*1973*		*1973*	*1973*
July 25	5-73	July 26	6-73	7¾ percent Series B-1977	99.07	[2] 99.31	99.01	$500,000	Aug. 15	Aug. 15, 1977	July 31	Aug. 15
Aug. 20	7-73	Aug. 20		8⅜ percent Series G-1975	100.80	[2] 101.05	100.70	500,000	Sept. 4	Sept. 30, 1975	Aug. 24	Sept. 4
Oct. 24	8-73	Oct. 25	9-73, 10-73	7 percent Series H-1975	100.14	100.49	100.09	500,000	Nov. 15	Dec. 31, 1975	Oct. 31	Nov. 15
Oct. 24	9-73	Oct. 25	8-73, 10-73	7 percent Series C-1979	100.88	[2] 101.21	100.63	500,000	Nov. 15	Nov. 15, 1979	Oct. 30	Nov. 15
1974		*1974*							*1974*		*1974*	*1974*
Jan. 30	1-74	Jan. 31	2-74, 3-74	6⅞ percent Series C-1977	100.51	100.92	100.35	500,000	Feb. 15	May 15, 1977	Feb. 6	Feb. 15
Jan. 30	2-74	Jan. 31	1-74, 3-74	7 percent Series A-1981	100.28	[2] 100.68	100.10	500,000	Feb. 15	Feb. 15, 1981	Feb. 5	Feb. 15
Mar. 20	4-74	Mar. 21		8 percent Series H-1976	99.85	[2] 100.11	99.76	500,000	Apr. 9	Mar. 31, 1976	Mar. 28	Apr. 9
May 1	5-74	May 2	6-74, 7-74	8¾ percent Series I-1976 [3]	100.00	[2] 100.57	99.87	500,000	May 15	June 30, 1976	May 8	May 15
May 1	6-74	May 2	5-74, 7-74	8¾ percent Series C-1978 [3]	100.07	[2] 100.68	99.96	500,000	May 15	Aug. 15, 1978	May 7	May 15

[1] Payment could not be made through Treasury tax and loan accounts for any of the issues.
[2] Relatively small amounts of bids were accepted at a price or prices above the high shown. However, the higher price or prices are not shown in order to prevent an appreciable discontinuity in the range of prices, which would make it misrepresentative.
[3] These issues were offered with a minimum denomination of $10,000 (all other issues had a minimum denomination of $1,000).

Exhibit 2.—Treasury bonds

A Treasury circular covering an auction of Treasury bonds for cash with the price established through competitive bidding is reproduced in this exhibit. Circulars pertaining to other bond offerings during fiscal 1974 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 bonds will be shown in table 38 in the Statistical Appendix. During the year there were no offerings in which holders of maturing securities were given preemptive rights to exchange their holdings for new bonds.

DEPARTMENT CIRCULAR NO. 6–73. PUBLIC DEBT

DEPARTMENT OF THE TREASURY,
Washington, July 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 $500,000,000, or thereabouts, of bonds of the United States, designated 7½ percent Treasury Bonds of 1988–93. 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 and bonds maturing August 15, 1973. Tenders on a competitive or noncompetitive basis will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, August 1, 1973. The price for the bonds will be established as set forth in Section III hereof. The 8⅛ percent Treasury Notes of Series B–1973 and 4 percent Treasury Bonds of 1973, maturing August 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 August 15, 1973, and will bear interest from that date at the rate of 7½ 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, 1993, but may be redeemed at the option of the United States on and after August 15, 1988, 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 payments 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, August 1, 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.

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 $500,000,000 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, August 1, 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 August 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 August 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 assign-

ments of the securities presented should be assigned to "The Secretary of the Treasury for 7½ percent Treasury Bonds of 1988–93 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 7½ percent coupon Treasury Bonds of 1988–93 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 1974

Date of preliminary announcement	Department circular No.	Department circular Date	Concurrent offering circular No.	Treasury bonds issued (all auctioned for cash)	Issue price	Limit on noncompetitive tenders	Issue date	Maturity date	Date tenders received	Payment date [1]
1973		*1973*					*1973*	*1993*	*1973*	*1973*
July 25	6-73	July 26	5-73	7½ percent of 1988-93	95.05	$250,000	Aug. 15	Aug. 15	Aug. 1	Aug. 15
Oct. 24	10-73	Oct. 25	8-73, 9-73	7½ percent of 1988-93	101.60	250,000	Aug. 15 [2]	Aug. 15	Oct. 31	Nov. 15
1974		*1974*							*1974*	*1974*
Jan. 30	3-74	Jan. 31	1-74, 2-74	7½ percent of 1988-93	100.45	250,000	Aug. 15 [3]	Aug. 15	Feb. 7	Feb. 28
							1974	*1999*		
May 1	7-74	May 2	5-74, 6-74	8½ percent of 1994-99	102.85	250,000	May 15	May 15	May 8	May 15

[1] Payment could not be made through Treasury tax and loan accounts for any of the issues.
[2] Interest was payable from Nov. 15, 1974.
[3] Interest was payable from Feb. 28, 1974, except that in the case of holders who paid for the bonds with notes or bonds due Feb. 15, 1974, interest was payable from that date.

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 52-week issues, 1 294-day issue, 1 336-day issue, 6 issues of tax anticipation series, and 2 issues of strips of weekly bills. 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 4, 1974

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued June 13, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated March 14, 1974, and to mature September 12, 1974 (CUSIP No. 912793 UP9), originally issued in the amount of $1,801,885,000, the additional and original bills to be freely interchangeable.

182-day bills for $1,900,000,000, or thereabouts, to be dated June 13, 1974, and to mature December 12, 1974 (CUSIP No. 912793 VC7).

The bills will be issued for cash and in exchange for Treasury bills maturing June 13, 1974, outstanding in the amount of $4,303,175,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,529,650,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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 Savings time, Monday, June 10, 1974. 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. 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 13, 1974, in cash or other immediately available funds or in a like face amount of

Treasury bills maturing June 13, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

PRESS RELEASE OF JUNE 17, 1974

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on June 20, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

Range of accepted competitive bids	13-week bills maturing Sept. 19, 1974		26-week bills maturing Dec. 19, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
		Percent		*Percent*
High	97.940	8.149	95.887	8.136
Low	97.931	8.185	95.862	8.185
Average	[1] 97.933	[2] 8.177	[3] 95.867	[2] 8.175

[1] Tenders at the low price for the 13-week bills were allotted 100 percent.
[2] These rates are on a bank discount basis. The equivalent coupon issue yields are 8.47 percent for the 13-week bills, and 8.65 percent for the 26-week bills.
[3] Tenders at the low price for the 26-week bills were allotted 2 percent.

Total tenders applied for and accepted by Federal Reserve districts

District	Applied for	Accepted	Applied for	Accepted
Boston	$40,770,000	$30,140,000	$15,555,000	$13,555,000
New York	4,148,835,000	2,203,350,000	3,535,770,000	1,685,760,000
Philadelphia	33,045,000	29,045,000	60,795,000	11,895,000
Cleveland	77,595,000	41,020,000	78,100,000	26,580,000
Richmond	69,100,000	38,570,000	44,510,000	18,210,000
Atlanta	43,590,000	27,830,000	32,740,000	20,790,000
Chicago	258,320,000	85,455,000	229,250,000	33,025,000
St. Louis	59,395,000	24,595,000	55,625,000	18,375,000
Minneapolis	39,845,000	13,740,000	21,765,000	5,765,000
Kansas City	46,240,000	39,495,000	35,015,000	25,940,000
Dallas	59,700,000	18,730,000	29,595,000	14,595,000
San Francisco	156,765,000	48,235,000	121,700,000	26,000,000
Total	5,033,200,000	[1] 2,600,205,000	4,260,420,000	[2] 1,900,490,000

[1] Includes $437,775,000 noncompetitive tenders accepted at average price.
[2] Includes $257,020,000 noncompetitive tenders accepted at average price.

Summary of information pertaining to Treasury bills issued during the fiscal year 1974

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity [1]	Maturity value: Total applied for	Maturity value: Tenders accepted: Total accepted	Maturity value: Tenders accepted: On competitive basis	Maturity value: Tenders accepted: On non-competitive basis	Prices and rates: Total bids accepted: Average price per hundred	Prices and rates: Total bids accepted: Equivalent average rate (percent)	Prices and rates: Competitive bids accepted: High: Price per hundred	Prices and rates: Competitive bids accepted: High: Equivalent rate (percent)	Prices and rates: Competitive bids accepted: Low: Price per hundred	Prices and rates: Competitive bids accepted: Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
REGULAR WEEKLY													
1973													
July 5	Oct. 4, 1973	91	$3,348,685	$2,500,430	$2,206,170	$294,260	97.981	7.986	[2] 98.028	7.801	97.952	8.102	$2,401,420
5	Jan. 3, 1974	182	3,545,520	1,700,985	1,527,550	173,435	95.950	8.010	[2] 95.980	7.952	95.933	8.045	1,901,105
12	Oct. 11, 1973	91	3,974,745	2,500,385	2,144,860	355,525	97.980	7.990	97.996	7.928	97.976	8.007	2,400,800
12	Jan. 10, 1974	182	3,215,350	1,701,710	1,442,240	259,470	95.946	8.018	95.968	7.975	95.937	8.037	1,901,780
19	Oct. 18, 1973	91	4,273,600	2,500,870	2,165,990	334,880	97.986	7.968	[2] 98.003	7.900	97.983	7.979	2,402,215
19	Jan. 17, 1974	182	3,429,610	1,700,715	1,432,645	268,070	95.944	8.023	[2] 95.983	7.946	95.940	8.031	1,902,100
26	Oct. 25, 1973	91	3,887,315	2,501,445	2,213,930	287,515	97.949	8.113	[2] 97.977	8.003	97.938	8.157	2,398,610
26	Jan. 24, 1974	182	3,560,880	1,701,950	1,481,795	220,155	95.818	8.272	[2] 95.844	8.221	95.810	8.288	1,901,115
Aug. 2	Nov. 1, 1973	91	3,795,970	2,500,695	2,192,060	308,635	97.897	8.319	97.915	8.248	97.888	8.355	2,501,000
2	Jan. 31, 1974	182	3,386,465	1,700,980	1,467,225	233,755	95.715	8.476	95.732	8.442	95.708	8.490	1,800,885
9	Nov. 8, 1973	91	3,422,705	2,501,585	2,174,335	327,250	97.855	8.485	[2] 97.890	8.347	97.830	8.585	2,504,460
9	Feb. 7, 1974	182	3,110,515	1,801,615	1,553,025	248,590	95.627	8.649	[2] 95.684	8.537	95.608	8.687	1,800,965
16	Nov. 15, 1973	91	3,752,622	2,500,620	2,161,485	339,135	97.731	8.975	[2] 97.763	8.850	97.720	9.020	2,500,660
16	Feb. 14, 1974	182	3,686,985	1,806,865	1,541,435	265,430	95.479	8.942	[2] 95.527	8.848	95.473	8.955	1,802,910
23	Nov. 23, 1973	92	3,595,235	2,501,125	2,124,545	376,580	97.723	8.911	[2] 97.742	8.836	97.708	8.969	2,501,105
23	Feb. 21, 1974	182	3,588,565	1,801,540	1,548,885	252,655	95.523	8.856	95.539	8.824	95.516	8.869	1,801,175
30	Nov. 29, 1973	91	3,686,690	2,502,775	2,172,255	330,520	97.809	8.668	97.841	8.541	97.796	8.719	2,501,980
30	Feb. 28, 1974	182	3,444,600	1,800,305	1,574,240	226,065	95.664	8.576	95.703	8.500	95.657	8.591	1,800,425
Sept. 6	Dec. 6, 1973	91	3,904,335	2,502,265	2,199,120	303,145	97.781	8.778	97.806	8.680	97.772	8.814	2,501,005
6	Mar. 7, 1974	182	3,448,160	1,808,500	1,647,650	160,850	95.584	8.734	95.617	8.670	95.577	8.749	1,800,490
13	Dec. 13, 1973	91	3,942,285	2,491,455	2,119,450	372,005	97.721	9.015	[2] 97.745	8.921	97.714	9.044	2,502,365
13	Mar. 14, 1974	182	4,228,170	1,802,275	1,557,995	244,280	95.490	8.920	[2] 95.503	8.895	95.485	8.931	1,801,040
20	Dec. 20, 1973	91	4,114,630	2,502,305	2,090,945	411,360	97.779	8.786	[2] 97.808	8.672	97.776	8.798	2,501,065
20	Mar. 21, 1974	182	5,376,130	1,803,300	1,560,215	243,085	95.535	8.831	[2] 95.548	8.806	95.532	8.838	1,801,355
27	Dec. 27, 1973	91	4,136,570	2,503,095	2,159,675	343,420	98.147	7.329	98.167	7.251	98.141	7.354	2,503,195

See footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1974—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity [1]	Maturity value: Total applied for	Tenders accepted: Total accepted	Tenders accepted: On competitive basis	Tenders accepted: On noncompetitive basis	Total bids accepted: Average price per hundred	Total bids accepted: Equivalent average rate (percent)	Competitive bids accepted: High: Price per hundred	High: Equivalent rate (percent)	Low: Price per hundred	Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
REGULAR WEEKLY													
1973	*1974*												
27	Mar. 28	182	$4, 388, 615	$1, 802, 560	$1, 581, 070	$221, 490	96. 127	7. 661	96. 147	7. 621	96. 123	7. 669	$1, 806, 600
Oct. 4	Jan. 3	91	3, 129, 105	2, 501, 335	2, 222, 645	278, 690	98. 193	7. 148	98. 219	7. 046	98. 167	7. 251	2, 500, 430
4	Apr. 4	182	3, 191, 815	1, 800, 960	1, 605, 020	195, 940	96. 166	7. 583	96. 196	7. 524	96. 150	7. 615	1, 800, 975
11	Jan. 10	91	4, 545, 035	2, 502, 570	2, 257, 210	245, 360	98. 149	7. 322	[2] 98. 161	7. 275	98. 145	7. 338	2, 500, 385
11	Apr. 11	182	3, 268, 280	1, 803, 250	1, 631, 030	172, 220	96. 330	7. 260	[2] 96. 345	7. 230	96. 313	7. 293	1, 800, 695
18	Jan. 17	91	3, 763, 455	2, 502, 100	2, 172, 400	329, 700	98. 183	7. 188	98. 200	7. 121	98. 172	7. 232	2, 500, 870
18	Apr. 18	182	3, 782, 610	1, 802, 095	1, 618, 160	183, 935	96. 339	7. 241	96. 350	7. 220	96. 330	7. 259	1, 800, 340
25	Jan. 24	91	3, 525, 505	2, 499, 315	2, 266, 745	232, 570	98. 241	6. 960	98. 251	6. 919	98. 220	7. 042	2, 501, 445
25	Apr. 25	182	2, 996, 010	1, 801, 625	1, 679, 230	122, 395	96. 486	6. 951	96. 510	6. 903	96. 461	7. 000	1, 799, 345
Nov. 1	Jan. 31	91	3, 949, 175	2, 511, 445	2, 238, 700	272, 745	98. 181	7. 195	[2] 98. 190	7. 160	98. 169	7. 244	2, 500, 695
1	May 2	182	3, 474, 510	1, 801, 125	1, 678, 000	123, 125	96. 328	7. 264	[2] 96. 344	7. 232	96. 317	7. 285	1, 800, 645
8	Feb. 7	91	3, 394, 335	2, 500, 935	2, 222, 190	278, 745	97. 953	8. 099	[2] 97. 977	8. 003	97. 915	8. 248	2, 501, 585
8	May 9	182	4, 243, 355	1, 800, 915	1, 665, 605	135, 310	95. 962	7. 987	[2] 95. 975	7. 962	95. 943	8. 025	1, 801, 695

	1973												
	Nov. 23												
	29												
	Dec. 6												
	13												
	20												
[3] 14	27	43.1	2,152,975	1,100,110	1,097,855	2,255	98.962	8.671	98.977	8.545	98.953	8.745	....
	1974												
	Jan. 3												
	10												
	17												
	24												
	31												
Nov. 15	Feb. 14	91	4,046,455	2,502,555	2,152,550	350,005	97.817	8.635	[2] 97.865	8.446	97.810	8.664	2,500,620
15	May 16	182	4,340,965	1,801,370	1,639,000	162,370	95.763	8.381	[2] 95.772	8.363	95.749	8.409	1,692,665
23	Feb. 21	90	3,712,060	2,452,070	2,060,285	391,785	98.074	7.705	98.092	7.632	98.058	7.768	[4] 2,501,125
23	May 23	181	4,026,645	1,800,415	1,616,490	183,925	96.076	7.804	[2] 96.088	7.781	96.056	7.844	1,700,955
29	Feb. 28	91	4,428,585	2,502,875	2,182,130	320,745	98.055	7.696	98.068	7.643	98.053	7.702	[4] 2,502,775
29	May 30	182	3,615,340	1,797,645	1,640,600	157,045	96.118	7.679	96.148	7.619	96.106	7.702	1,702,030
Dec. 6	Mar. 7	91	3,598,475	2,511,825	2,163,085	348,740	98.140	7.359	98.175	7.220	98.122	7.429	[4] 2,502,265
6	June 6	182	3,097,785	1,800,735	1,638,570	162,165	96.074	7.765	[2] 96.134	7.647	96.056	7.801	1,707,440
13	Mar. 14	91	3,634,050	2,501,845	2,167,925	333,920	98.133	7.386	[2] 98.146	7.335	98.123	7.425	[4] 2,491,455
13	June 13	182	3,554,780	1,801,295	1,615,780	185,515	96.193	7.531	96.211	7.495	96.184	7.548	1,700,840
20	Mar. 21	91	4,761,970	2,501,865	2,176,320	325,545	98.138	7.367	98.151	7.315	98.134	7.382	[4] 2,502,305
20	June 20	182	3,041,980	1,799,045	1,627,595	171,450	96.378	7.165	96.410	7.101	96.361	7.198	1,700,870
27	Mar. 28	91	3,363,235	2,523,985	2,240,705	283,280	98.143	7.346	98.168	7.247	98.119	7.441	[4] 2,503,090
27	June 27	182	2,937,395	1,801,735	1,677,755	123,980	96.302	7.314	[2] 96.335	7.249	96.284	7.350	1,701,130

See footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1974—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity[1]	Maturity value: Total applied for	Maturity value: Tenders accepted: Total accepted	Maturity value: Tenders accepted: On competitive basis	Maturity value: Tenders accepted: On non-competitive basis	Prices and rates: Total bids accepted: Average price per hundred	Prices and rates: Total bids accepted: Equivalent average rate (percent)	Competitive bids accepted: High: Price per hundred	Competitive bids accepted: High: Equivalent rate (percent)	Competitive bids accepted: Low: Price per hundred	Competitive bids accepted: Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
REGULAR WEEKLY													
1974	*1974*												
Jan. 3	Apr. 4	91	$3,397,970	$2,501,100	$2,225,745	$275,355	98.128	7.407	[2] 98.143	7.346	98.116	7.453	$2,501,335
3	July 5	183	3,009,005	1,802,505	1,660,730	141,775	96.253	7.372	[2] 96.289	7.300	96.239	7.399	1,700,985
10	Apr. 11	91	3,621,535	2,504,505	2,125,670	378,835	98.075	7.616	[2] 98.092	7.548	98.067	7.647	[4] 2,502,570
10	July 11	182	3,595,745	1,809,540	1,580,020	229,520	96.178	7.561	[2] 96.198	7.520	96.174	7.568	1,701,710
17	Apr. 18	91	3,777,920	2,502,105	2,079,420	422,685	97.982	7.982	97.993	7.940	97.973	8.019	[4] 2,502,100
17	July 18	182	3,603,125	1,811,475	1,552,965	258,510	96.023	7.866	[2] 96.049	7.815	96.016	7.880	1,700,715
24	Apr. 25	91	4,225,850	2,505,440	2,111,415	394,025	97.979	7.994	97.993	7.940	97.977	8.003	[4] 2,499,315
24	July 25	182	4,169,590	1,797,650	1,544,910	252,740	96.047	7.819	96.051	7.811	96.044	7.825	1,701,950
31	May 2	91	6,395,880	2,506,815	2,122,720	384,095	98.034	7.777	98.040	7.754	98.030	7.793	[4] 2,511,445
31	Aug. 1	182	3,944,115	1,803,345	1,565,210	238,135	96.200	7.516	96.210	7.497	96.195	7.526	1,700,980
Feb. 7	May 9	91	4,503,430	2,504,650	2,096,870	407,780	98.243	6.951	98.253	6.911	98.237	6.975	2,500,935
7	Aug. 8	182	2,855,815	1,802,470	1,598,760	203,710	96.589	6.747	[2] 96.618	6.690	96.567	6.791	1,801,615
14	May 16	91	3,756,250	2,501,910	2,117,240	384,670	98.210	7.080	98.232	6.994	98.203	7.109	2,502,555
14	Aug. 15	182	3,165,375	1,799,305	1,625,250	174,055	96.521	6.881	[2] 96.546	6.832	96.502	6.919	1,806,865
21	May 23	91	4,133,715	2,502,770	2,131,900	370,870	98.226	7.019	98.230	7.002	98.219	7.046	2,452,070
21	Aug. 22	182	3,533,305	1,797,450	1,656,955	140,495	96.569	6.787	[2] 96.580	6.765	96.558	6.808	1,801,540
28	May 30	91	3,784,175	2,503,080	2,087,570	415,510	98.183	7.187	[2] 98.198	7.129	98.170	7.240	2,402,875
28	Aug. 29	182	3,727,040	1,801,975	1,624,600	177,375	96.420	7.081	[2] 96.440	7.042	96.413	7.095	1,800,305
Mar. 7	June 6	91	3,317,150	2,500,705	2,112,045	388,660	98.060	7.674	[2] 98.091	7.552	98.048	7.722	2,511,825
7	Sept. 5	182	4,363,865	1,804,950	1,639,770	165,180	96.175	7.566	[2] 96.192	7.532	96.166	7.584	1,808,500
14	June 13	91	5,175,065	2,501,890	2,081,915	419,975	97.998	7.918	[2] 98.003	7.900	97.995	7.932	2,501,845
14	Sept. 12	182	3,448,535	1,801,875	1,578,215	223,660	96.139	7.638	[2] 96.160	7.596	96.123	7.669	1,802,275
21	June 20	91	3,764,130	2,501,015	2,056,885	444,130	97.966	8.047	[2] 98.003	7.900	97.953	8.098	2,501,865
21	Sept. 19	182	3,073,200	1,801,170	1,603,635	197,535	96.015	7.882	[2] 96.085	7.744	95.994	7.924	1,803,300
28	June 27	91	3,395,815	2,501,175	2,061,340	439,835	97.902	8.298	[2] 97.932	8.181	97.882	8.379	2,523,985
28	Sept. 26	182	3,333,650	1,801,155	1,593,560	207,595	95.839	8.230	[2] 95.867	8.175	95.830	8.248	1,802,560
Apr. 4	July 5	92	3,718,075	2,501,310	2,034,045	467,265	97.864	8.360	97.890	8.257	97.856	8.390	2,501,100
4	Oct. 3	182	3,928,995	1,809,595	1,526,690	282,905	95.849	8.210	95.869	8.171	95.845	8.219	1,800,960
11	July 11	91	3,909,070	2,501,210	1,964,260	536,950	97.814	8.647	[2] 97.836	8.561	97.809	8.668	2,504,505
11	Oct. 10	182	3,452,625	1,801,960	1,495,560	306,400	95.757	8.393	[2] 95.785	8.337	95.749	8.409	1,803,250

18	July 18	91	4,010,550	2,503,000	1,963,690	539,310	97.965	8.050	97.985	7.971	97.959	8.074	2,502,105
18	Oct. 17	182	3,553,910	1,804,175	1,517,955	286,220	95.913	8.085	95.921	8.068	95.911	8.088	1,802,095
25	July 25	91	3,434,735	2,501,105	2,063,685	437,420	98.014	7.855	[2] 98.043	7.742	97.976	8.007	2,505,440
25	Oct. 24	182	2,819,220	1,801,490	1,557,940	243,550	95.958	7.994	95.983	7.946	95.887	8.136	1,801,625
May 2	Aug. 1	91	3,093,140	2,503,490	2,110,920	392,570	97.748	8.909	[2] 97.796	8.719	97.712	9.051	2,506,815
2	Oct. 31	182	2,464,830	1,802,275	1,605,640	196,635	95.553	8.796	[2] 95.633	8.638	95.475	8.951	1,801,125
9	Aug. 8	91	4,044,560	2,500,545	2,008,435	492,110	97.716	9.036	[2] 97.737	8.953	97.707	9.071	2,504,650
9	Nov. 7	182	3,469,415	1,801,315	1,527,805	273,510	95.447	9.006	[2] 95.477	8.947	95.439	9.022	1,800,915
16	Aug. 15	91	3,670,390	2,601,450	2,100,615	500,835	97.972	8.023	98.000	7.912	97.955	8.090	2,501,910
16	Nov. 14	182	3,226,505	1,902,325	1,553,370	348,955	95.940	8.031	95.973	7.965	95.911	8.088	1,801,370
23	Aug. 22	91	3,475,460	2,604,335	2,144,455	459,880	97.928	8.197	[2] 97.962	8.062	97.892	8.339	2,502,770
23	Nov. 21	182	2,756,120	1,900,870	1,662,030	238,840	95.733	8.440	[2] 95.810	8.288	95.681	8.543	1,800,415
30	Aug. 29	91	3,722,520	2,604,150	2,236,090	368,060	97.982	7.984	[2] 98.041	7.750	97.957	8.082	2,503,080
30	Nov. 29	183	3,473,520	1,902,570	1,678,505	224,065	95.829	8.205	[2] 95.888	8.089	95.804	8.254	1,797,645
June [5] 5	Sept. 19, Sept. 26, Oct. 3, Oct. 10, Oct. 17, Oct. 24, Oct. 31, Nov. 7	130.5	2,457,800	800,520	796,680	3,840	96.997	8.285	97.018	8.226	96.981	8.328	------------
6	Sept. 5	91	3,577,635	2,602,090	2,158,740	443,350	97.902	8.299	97.940	8.149	97.888	8.355	2,500,705
6	Dec. 5	182	3,383,360	1,903,920	1,618,605	285,315	95.740	8.426	[2] 95.779	8.349	95.725	8.456	1,800,735
13	Sept. 12	91	3,693,105	2,603,105	2,146,925	456,180	97.912	8.260	[2] 97.927	8.201	97.905	8.288	2,501,890
13	Dec. 12	182	3,792,125	1,902,590	1,606,350	296,240	95.792	8.324	95.805	8.298	95.785	8.337	1,801,295
20	Sept. 19	91	5,053,845	2,600,870	2,162,430	438,440	97.933	8.178	97.940	8.149	97.931	8.185	2,500,965
20	Dec. 19	182	4,261,165	1,901,235	1,643,470	257,765	95.867	8.175	95.887	8.136	95.862	8.185	1,799,045
27	Sept. 26	91	3,925,225	2,600,445	2,175,355	425,090	98.018	7.841	98.064	7.659	97.993	7.940	2,501,175
27	Dec. 26	182	3,016,815	1,900,565	1,681,360	219,205	95.954	8.003	[2] 96.018	7.876	95.904	8.102	1,801,745

52-WEEK AND MONTHLY

1973	*1974*												
July 31	July 2	336	2,984,750	1,802,005	1,726,500	75,505	92.167	8.392	[2] 92.210	8.346	92.135	8.427	1,701,520
Aug. 28	Aug. 27	364	3,061,920	1,804,820	1,682,050	122,770	91.519	8.387	[2] 91.555	8.352	91.483	8.423	1,803,370
Sept. 25	Sept. 24	364	3,046,870	1,802,240	1,715,200	87,040	91.853	8.057	[2] 91.931	7.980	91.782	8.128	1,800,510
Oct. 9	July 30	294	4,209,295	1,804,445	1,705,370	99,075	93.710	7.702	[2] 93.780	7.616	93.678	7.741	------------
23	Oct. 22	364	4,277,250	1,801,830	1,751,810	50,020	92.789	7.132	92.799	7.122	92.779	7.142	1,802,480
Nov. 20	Nov. 19	364	3,437,055	1,800,640	1,767,975	32,665	92.206	7.708	[2] 92.282	7.633	92.157	7.757	1,802,050
Dec. 18	Dec. 17	364	3,588,155	1,802,550	1,769,550	33,000	93.043	6.880	93.046	6.878	93.013	6.910	1,800,470
1974	*1975*												
Jan. 15	Jan. 14	364	3,221,895	1,802,365	1,744,590	57,775	92.975	6.948	93.038	6.885	92.905	7.017	1,803,975
Feb. 12	Feb. 11	364	3,103,260	1,802,095	1,756,565	45,530	93.588	6.342	93.638	6.292	93.536	6.393	1,801,085
Mar. 12	Mar. 11	364	3,358,850	1,801,065	1,764,465	36,600	93.026	6.897	93.079	6.845	92.973	6.950	1,790,265
Apr. 9	Apr. 8	364	3,201,815	1,801,360	1,749,535	51,825	92.026	7.887	[2] 92.083	7.830	91.963	7.949	1,801,775
May 7	May 6	364	2,984,435	1,802,270	1,728,485	73,785	91.485	8.422	[2] 91.618	8.290	91.418	8.488	1,800,435
June 4	June 3	364	2,530,680	1,801,760	1,735,930	65,830	91.660	8.249	[2] 91.729	8.180	91.577	8.330	1,800,840

See footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1974—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity[1]	Maturity value: Total applied for	Tenders accepted: Total accepted	Tenders accepted: On competitive basis	Tenders accepted: On noncompetitive basis	Total bids accepted: Average price per hundred	Total bids accepted: Equivalent average rate (percent)	Competitive bids accepted, High: Price per hundred	High: Equivalent rate (percent)	Low: Price per hundred	Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
					TAX ANTICIPATION								
1973	*1973*												
Aug. 15	Sept. 19	35	$3,896,440	$2,016,990	$1,870,650	$146,340	99.047	9.803	99.091	9.350	99.022	10.059	....
	1974												
Nov. 1	Apr. 19	169	4,716,050	2,007,185	1,481,965	525,220	96.824	6.765	96.882	6.642	96.787	6.844	....
30	19	140	2,507,315	1,001,400	918,085	83,315	97.020	7.830	[2] 97.042	7.773	97.007	7.865	....
30	June 21	203	2,948,480	1,924,750	1,738,950	185,800	95.671	7.790	95.711	7.720	95.611	7.900	....
1974													
Mar. 4	Apr. 19	46	3,773,705	1,516,125	1,285,320	230,805	99.048	7.452	99.106	6.997	99.027	7.615	....
29	June 21	84	5,041,015	2,522,720	2,105,720	417,000	98.062	8.306	[2] 98.086	8.203	98.050	8.357	....

[1] The 90-, 91-, and 92-day bills are additional issues of bills with an original maturity of 181, 182, or 183 days.

[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] An additional $100,010,000 of each of the issues issued as a strip.

[4] In addition $100,010,000 of a strip of bills issued Nov. 14, 1973, matured.

[5] An additional $100,065,000 of each of the issues issued as a strip.

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, 52-week, 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. The maximum amount for noncompetitive tenders for tax anticipation bills was $250,000 for the issue of Nov. 30 due Apr. 19, $300,000 for the issue of Mar. 4, and $500,000 for the other four issues. The maximum amount for the strip issued on Nov. 14 was $220,000 and for the strip issued on June 5 it was $160,000.

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 all issues of tax anticipation bills except the issues of Aug. 15 and Nov. 30 when credit was limited to 50 percent of the amount of bills allotted. Fifty percent credit was permitted for the 294-day bills issued on Oct. 9. Payment by credit was not permitted for any of the other issues.

Exhibit 4.—Department Circular No. 530, September 5, 1973, Tenth Revision, regulations governing United States savings bonds

DEPARTMENT OF THE TREASURY,
Washington, September 5, 1973.

Department of the Treasury Circular No. 530, Ninth Revision, dated December 23, 1964, as amended (31 CFR, Part 315), is hereby further amended and issued as the Tenth Revision.

AUTHORITY: Sec. 22 of the Second Liberty Bond Act, as amended, 49 Stat. 21, as amended (31 U.S.C. 757c); sec. 8 of the Act of July 8, 1937, as amended, 50 Stat. 481, as amended (31 U.S.C. 738a); and (5 U.S.C. 301).

SUBPART A—GENERAL INFORMATION

§ 315.0 Applicability of regulations.

These regulations apply to all United States Savings Bonds of whatever series designation, bearing any issue dates whatever, to the extent specified herein and in the offering circulars governing such bonds. The provisions of these regulations with respect to bonds registered in the names of certain classes of individuals, fiduciaries, and organizations are equally applicable to bonds to which such individuals, fiduciaries, and organizations are otherwise shown to be entitled under these regulations. United States Savings Notes, issued under authority of sections 18 and 20 of the Second Liberty Bond Act, as amended (31 U.S.C. 753 and 754b), and offered in Department Circular, Public Debt Series No. 3–67 (31 CFR, Part 342), are also governed by these regulations, subject to the provisions of the offering circular. The term "savings bonds" or "bonds," as used in these regulations, refers to United States Savings Bonds and, as applicable, to United States Savings Notes. The provisions of Department Circular No. 300, current revision (31 CFR, Part 306), have no application to the securities governed by these regulations.

§ 315.1 Official agencies.

The Bureau of the Public Debt of the Department of the Treasury is charged with matters relating to savings bonds. Correspondence concerning transactions after original issue and requests for appropriate forms should be addressed to (a) the Federal Reserve Bank or Branch of the District in which the correspondent is located, or (b) the Bureau of the Public Debt, 536 South Clark Street, Chicago, Illinois 60605, or (c) 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. Notices or documents not filed in accordance with instructions in these regulations will not be recognized. The addresses of the Federal Reserve Banks and Branches are:

Federal Reserve Bank of Boston, Boston, Mass. 02106.
Federal Reserve Bank of New York, New York, N.Y. 10045.
  Buffalo Branch, Buffalo, N.Y. 14240.
Federal Reserve Bank of Philadelphia, Philadelphia, Pa. 19101.
Federal Reserve Bank of Cleveland, Cleveland, Ohio 44101.
  Cincinnati Branch, Cincinnati, Ohio 45201.
  Pittsburgh Branch, Pittsburgh, Pa. 15230.
Federal Reserve Bank of Richmond, Richmond, Va. 23261.
  Baltimore Branch, Baltimore, Md. 21203.
  Charlotte Branch, Charlotte, N.C. 28201.
Federal Reserve Bank of Atlanta, Atlanta, Ga. 30303.
  Birmingham Branch, Birmingham, Ala. 25202.
  Jacksonville Branch, Jacksonville, Fla. 32203.
  Nashville Branch, Nashville, Tenn. 37203.
  New Orleans Branch, New Orleans, La. 70160.
  Miami Office, Miami, Fla. 33152.
Federal Reserve Bank of Chicago, Chicago, Ill. 60609.
  Detroit Branch, Detroit, Mich. 48231.
Federal Reserve Bank of St. Louis, St. Louis, Mo. 63166.
  Little Rock Branch, Little Rock, Ark. 72203.
  Louisville Branch, Louisville, Ky. 40201.
  Memphis Branch, Memphis, Tenn. 38101.
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, Dallas, 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 Francisco, 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.

§ 315.2 Definition of words and terms as used in these regulations.

(a) "Authorized issuing agent" means an incorporated bank, trust company, savings bank, savings and loan association, other organization, or agency of the United States, qualified as an issuing agent under the provisions of Department Circular, Public Debt Series No. 4–67 (31 CFR, Part 317).

(b) "Authorized paying agent" means an incorporated bank, trust company, savings bank, savings and loan association, or other financial institution qualified as a paying agent under the provisions of Department Circular No. 750, current revision (31 CFR, Part 321).

(c) "Court" means a court having jurisdiction over the parties and subject matter.

(d) "Extended maturity date" is the date on which a bond will mature and cease to bear interest under applicable extended maturity provisions.

(e) "Extended maturity period"[1] means any period after original during which the owner may retain the bonds and continue to earn interest on the maturity value or extended maturity value under applicable extended maturity provisions of the circular offering such bonds for sale.

(f) "Extended maturity value" is the value of a bond at the end of the applicable extended maturity period.

(g) "Face amount" of a bond refers to the value of the bond as shown on the face thereof.

(h) "Incompetent" refers to a person under any legal disability except minority.

(i) "Maturity date" means the date on which the bond will mature by the terms of the circular offering it for sale without regard to any extended maturity period.

(j) "Payment" and "redemption" are used interchangeably, unless otherwise indicated. They refer to payment of a bond in accordance with these regulations.

(k) "Personal trust estate" means a trust estate established by natural persons in their own right for the benefit of themselves or other natural persons in whole or in part, and common trust funds comprised in whole or in part of such trust estates.

(l) "Presented and surrendered" and "presentation and surrender" mean the actual receipt of a bond, with an appropriate request for the particular transaction, by the Chicago, Parkersburg, or Washington Office of the Bureau of the Public Debt, the Office of the Treasurer of the United States, Securities Division, or a Federal Reserve Bank or Branch, or, if the transaction is one which an authorized paying agent may handle, receipt by such authorized paying agent.

(m) "Representative of the estate of a minor, incompetent, aged person, absentee, etc.," means a guardian, conservator, or similar representative appointed by a court or otherwise legally qualified, regardless of the title by which designated. These terms do not refer to a voluntary guardian recognized under § 315.53, to a natural guardian, such as a parent, including a parent to whom custody of a child has been awarded through divorce proceedings or a parent by adoption, or to the executor or administrator of the estate of a decedent.

(n) "Reissue" means the cancellation and retirement of a bond and issue of a

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[1] See Appendices to current revisions of Department Circulars No. 653 and No. 905 (31 CFR, Parts 316 and 332) concerning extensions and investment yields for Series E and Series H bonds, respectively. See Department Circular, Public Debt Series No. 3–67, Revised, as amended (31 CFR, Part 342), concerning the extension and investment yields for savings notes (Freedom Shares).

new bond or bonds of the same series, amount (face amount) (or the remainder thereof in case of partial redemption), and issue date.

(o) "Social security number" means an individual's social security account number or an employer identification number. An individual's number is composed of nine digits separated by two hyphens, for example, 123-45-6789; the 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.

SUBPART B—REGISTRATION

§ 315.5 General.

Savings bonds are issued only in registered form. The registration used on issue or reissue must express the actual ownership of an interest in the bond and, except as otherwise specifically provided in Subpart E and § 315.48 will be considered as conclusive of such ownership and interest. No designation of an attorney, agent, or other representative to request or receive payment on behalf of the owner or a coowner, or any restriction on the right of the owner or a coowner to receive payment of the bond or interest, except as provided in these regulations, may be made in the registration or otherwise. Registrations requested in applications for purchase or requests for reissue should be clear, accurate, and complete, conform with one of the forms set forth in this subpart, and include the social security number of the owner or first-named coowner.[2] However, if bonds are purchased as gifts, awards, prizes, or the like, and the social security number of the intended owner is not known, the purchaser's number must be furnished. In this event, the issuing agent will inscribe the word "GIFT" and the purchaser's number on the bond. Bonds so inscribed will not be associated with the purchaser's own holdings. 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. A natural person should be designated by the name by which he is ordinarily known or the one under which he does business, including preferably at least one full given name. The name of a natural person may be preceded by any applicable title, such as "Dr." or "Rev.," or followed by "M.D.," "D.D.," or other similar designation. "Sr." or "Jr.," or a similar suffix, should be included when ordinarily used or when necessary to distinguish the owner from a member of his family. If a woman is named as either second coowner or beneficiary, either the courtesy title "Miss" or "Mrs.," or her social security number must be furnished. 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.

§ 315.6 Restrictions on registration.

(a) *Residence.*—Registration of bonds is restricted on original issue, but not on authorized reissue, to persons (whether natural persons or others) who are:

(1) Residents of the United States, its territories and possessions, the Commonwealth of Puerto Rico, and the Canal Zone;

(2) Citizens of the United States temporarily residing abroad; and

(3) Civilian employees of the United States or members of its Armed Forces, regardless of their residence or citizenship.

Except to the extent otherwise provided in these regulations, only a natural person may be designated as coowner or beneficiary with a natural person of any of the above classes, whether on original issue or reissue. Also, registration is not permitted in any form which includes the name of any alien who is resident of any area with respect to which the Treasury Department restricts or regulates the delivery of checks drawn against funds of the United States or any agency or instrumentality thereof.[3]

(b) *Minority.*—(1) Bonds purchased by another person with funds belonging to a minor must be registered in the name of the minor without a coowner or beneficiary. Bonds purchased by a representative of a minor's estate must be registered in the name of the minor and include in the registration an appropriate

[2] Effective October 1, 1973. Issuing agents desiring to issue bonds in the names of entities described in § 315.7 (c)(9) and (e), should obtain instructions from the Bureau of the Public Debt, Washington, D.C. 20226.

[3] See Department Circular No. 655, current revision (31 CFR, Part 211).

reference to the guardianship estate. Bonds purchased by a representative of the estates of two or more minors, even though appointed in a single proceeding, must be registered in the name of each minor separately, with appropriate reference to his guardianship estate.

(2) Bonds purchased with funds not belonging to a minor may be registered to name the minor as owner, coowner or beneficiary. In this case, if the minor's estate is under legal guardianship, the registration should include an appropriate reference to the guardianship estate.

(3) Bonds 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 may be registered as provided in the applicable statute, with a parenthetical reference to the statute if it is not clearly identified by the registration. A coowner or beneficiary may not be named.

(4) Registration of bonds in the name of a natural guardian for a minor is not authorized.

(5) A minor may name a coowner or beneficiary on bonds he purchases with his wages, earnings, or other funds belonging to him and under his control.

(c) *Incompetency.*[4]—Bonds may be purchased to name as owner, coowner or beneficiary an incompetent for whose estate a guardian or similar representative has been appointed,[5] except that a coowner or beneficiary may not be named on bonds purchased with funds belonging to the incompetent. The registration must include appropriate reference to the guardianship or similar fiduciary estate.

§ 315.7 Authorized forms of registration.

Subject to any limitations or restrictions contained in these regulations on the right of any person to be named as owner, coowner, or beneficiary, bonds may be registered in the following forms:

(a) *Natural persons.*—In the names of natural persons in their own right, but only in one of the forms authorized by this paragraph:

(1) *Single ownership form.*—Example: John A. Jones 121–45–6789.

(2) *Coownership form—two natural persons (only).*—In the alternative as coowners. Examples:

John A. Jones 123–45–6789 or Mrs. Ella S. Jones. Ella S. Jones 987–65–4321 or John A. Jones. No other form of registration establishing coownership is authorized.

(3) *Beneficiary form—two natural persons (only).*—Examples:

John A. Jones 123–45–6789 payable on death to Miss Iola S. Jones. John A. Jones 123–45–6789 P.O.D. Ella S. Jones 987–65–4321.

"Payable on death to" may be abbreviated to "P.O.D.", as indicated in the last example, or "P.O.D.". The first-named natural person is hereinafter referred to as the owner and the second-named natural person as the beneficiary.

(b) *Fiduciaries (including legal guardians or similar representatives, certain custodians, executors, administrators and trustees).*—(1) *General.*—A bond may be registered in the name of any person or persons or any organization, public or private, acting as fiduciary of a single duly constituted fiduciary estate, but not where the fiduciary would hold the bond merely or principally as security for the performance of a duty, obligation or service. A coowner or beneficiary may not be named in the registration except under the applicable provisions of § 315.6 (b) and (c). A common trust fund established and maintained according to law by a financial institution duly authorized to act as a fiduciary will be considered as a single duly constituted fiduciary estate within the meaning of these regulations. Registration must conform to a form authorized by this paragraph.

(2) *Guardians, conservators, similar representatives, certain custodians.*—A bond may be registered in the name and title or capacity of the legally appointed, designated or authorized representative of the estate of a minor, incompetent, aged person, absentee, etc., or in the name of such individual, followed by an appropriate reference to the estate and showing the nature of the disability or referring to the applicable statute. A coowner or beneficiary may be named only in accordance with the applicable provisions of § 315.6 (b) and (c). Examples:

Tenth National Bank, guardian (or conservator, trustee, etc.) of the estate of George M. Brown 123–45–6789, a minor (or an incompetent, aged person, infirm person, or absentee).

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[4] See examples of forms of registration under § 315.7(b)(2).

[5] Bonds should not be registered in the name of an incompetent unless there is a representative for his estate, except as provided in § 315.53.

George M. Brown 123–45–6789, a minor (or an incompetent, aged person, infirm person, or absentee) under legal guardianship (or conservatorship or trusteeship, etc.) of James F. Jones.

John R. White 123–45–6789, an adult under conservatorship of Henry C. Smith pursuant to Sec. 572, 1963 Iowa Probate Code.

James F. Green 123–45–6789, a minor (or an incompetent) under custodianship by designation of the Veterans Administration.

Frank M. Redd 123–45–6789, an incompetent for whom Eric A. Redd has been designated trustee by the Department of the Army pursuant to 37 U.S.C. 351–354.

Arnold A. Ames, as custodian for Barry B. Bryan 123–45–6789, under the California Uniform Gifts of Securities to Minors Act.

Thomas J. Reed, as custodian for Lawrence W. Reed 123–45–6789, a minor, under the laws of Georgia (Ch. 48–3, Code of Ga. Ann.).

Richard A. Roe 123–45–6789, for whom Reva L. Roe is representative payee for social security benefits (or black lung benefits, as the case may be). (If the beneficiary is a minor, the words "a minor," should appear immediately after the social security number.)

Henry L. Green 123–45–6789 or Tenth National Bank, guardian of the estate of George M. Brown, a minor.

Henry L. Green 123–45–6789 P.O.D. George M. Brown, a minor under legal guardianship of Tenth National Bank.

(3) *Executors and administrators.*—A bond may be registered in the name of the representative or representatives appointed by a court or otherwise legally qualified to act for the estate of a decedent, or in the name of an executor authorized to administer a trust under the terms of a will although he is not named as trustee. The names and capacities of all the representatives, as shown in their letters of appointment, must be included in the registration and be followed by an adequate identifying reference to the estate. Examples:

John H. Smith and Calvin N. Jones, executors of the will (or administrators of the estate) of Robert J. Smith, deceased 12–3456789.

John H. Smith, executor of the will of Robert J. Smith, deceased, in trust for Mrs. Jane L. Smith, with remainder over 12–3456789.

(4) *Trustees or life tenants under wills, deeds of trust, agreements or similar instrument.*—A bond may be registered in the name and title of the trustee (or trustees) of a duly constituted trust estate, or in the name of a life tenant, followed by an adequate identifying reference to the authority governing the trust or life tenancy. Examples:

Thomas J. White and Tenth National Bank, trustees under the will of Robert J. Smith, deceased 12–3456789.

Mrs. Jane M. Black, life tenant under the will of Robert J. Black, deceased 12–3456789.

Tenth National Bank, trustee under agreement with Paul E. White, dated 2/1/55 12–3456789.

Carl A. Black and Henry B. Green, trustees under agreement with Paul E. White, dated 2/1/55 12–3456789.

If the trust instrument designates by title only an officer of a board or an organization as trustee, only the title of the officer should be used. Example:

Chairman, Board of Trustees, First Church of Christ, Scientist, of Chicago, Ill., in trust under the will of Robert J. Smith, deceased 12–3456789.

The names of all trustees, in the form used in the trust instrument, must be included in the registration, except as follows:

(i) If there are several trustees designated as a board or authorized to act as a unit, their names may be omitted and the words "Board of Trustees" substituted for the word "trustees." Example:

Board of Trustees of Immediate Relief Trust of Federal Aid Associations, under trust indenture dated 2/1/55 12–3456789.

(ii) If the trustees do not constitute a board and are not authorized to act as a unit, and are too numerous to be designated in the registration by names and title, some or all of the names may be omitted. Examples:

John A. Smith, Henry B. Jones, et al., trustees under the will of Edwin O. Mann, deceased 12–3456789.

Trustees under the will of Edwin A. Mann, deceased 12–3456789.

(5) *Pension, retirement or similar funds, or eligible employees' savings or savings and vacation plans.*—A bond may be registered in the name and title, or title alone, of the trustee or trustees of a pension, retirement or similar fund, or an eligible employees' savings or savings and vacation plan. If the instrument creating the trust provides that the trustees shall serve for a limited term, their names may be omitted. Examples:

Tenth National Bank, trustee of pension fund of Safety Manufacturing Co., U/A with said company dated March 31, 1949 12–3456789.

Trustees of Retirement Fund of Safety Manufacturing Co., under directors' resolution adopted 3/31/49 12–3456789.

County Trust Company, trustee of the Employees' Savings Plan of Jones Co., Inc., U/A dated 1/17/59, 12–3456789.

Trustee of the Employees' Savings Plan of Brown Bros., Inc., U/A dated January 20, 1964, 12–3456789.

(6) *Funds of lodges, churches, societies, or similar organizations.*—A bond may be registered in the titles of the trustees, or a board of trustees, holding funds in trust for a lodge, church, society, or similar organization, whether or not incorporated. Examples:

Trustees of the First Baptist Church, Akron, Ohio, acting as a Board under Sec. 15 of its by-laws 12–3456789.

Trustees of Jamestown Lodge No. 1,000, Benevolent and Protective Order of Elks, under Sec. 10 of its by-laws 12–3456789.

Board of Trustees of the Lotus Club, Washington, Ind., under Art. 10 of its constitution 12–3456789.

(7) *Investment agents for religious, educational, charitable or nonprofit organizations.*—A bond may be registered in the name of a bank, trust company, or other financial institution, or an individual, as agent under an agreement with a religious, educational, charitable, or nonprofit organization, whether or not incorporated, if the agent holds funds for the sole purpose of investing and reinvesting them and paying the income to the organization. The name and designation of the agent must be followed by an adequate identifying reference to the agreement. Examples:

Tenth National Bank, fiscal agent under agreement with The Evangelical Lutheran Church of the Holy Trinity, dated 12/28/49, 12–3456789.

Sixth Trust Co., investment agent U/A dated September 16, 1962, with Central City Post, Department of Illinois, American Legion 12–3456789.

John Jones, investment agent U/A dated 9/16/62, with Central City Post, Dept. of Ill., American Legion 12–3456789.

(8) *Funds of school groups or activities.*—A bond may be registered in the title of the principal or other officer of a public, private, or parochial school holding funds in trust for a student body fund or for a class, group, or activity. If the amount purchased for any one fund does not exceed $500 (face amount), no reference need be made to a trust instrument. Examples:

Principal, Western High School, in trust for Class of 1955 Library Fund 12–3456789.

Director of Athletics, Western High School, in trust for Student Activities Association under resolution adopted 5/12/55 12–3456789.

(9) *Public corporations, bodies, or officers as trustees.*—A bond may be registered in the name of a public corporation or a public body, or in the title of a public officer, acting as trustee under express authority of law, followed by an appropriate reference to the statute creating the trust. Examples:

Rhode Island Investment Commission, trustee of the General Sinking Fund under Ch. 35, Gen. Laws of R.I.

Superintendent of the Austin State Hospital Annex, in trust for the Benefit Fund under Sec. 3183 (c), Vernon's Civil Stats. of Texas Anno.

(c) *Private organizations (corporations, associations, partnerships)*—(1) *General.*—A bond may be registered in the name of any private organization in its own right, except that of a commercial bank, which is defined for this purpose as one accepting demand deposits. 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 parenthetical reference to a particular account other than a trust account, in accordance with the rules and examples authorized by this paragraph.

(2) *Corporations.*—A bond may be registered in the name of a business, fraternal, religious, or other private corporation. The words "a corporation" must be included in the registration unless the fact of incorporation is shown in the name. Examples:

Smith Manufacturing Co., a corporation 12–3456789.

Green & Redd, Inc. 12–3456789 (Depreciation Acct.).

(3) *Unincorporated associations.*—A bond may be registered in the name of a club, lodge, society, or similar self-governing association which is not incorporated. The words "an unincorporated association" must be included in the registration. This form of registration must not be used for a trust fund, a board of trustees, a partnership, a business conducted under a trade name or a sole proprietorship. If the association is chartered by or affiliated with a parent organization, the name or designation of the subordinate or local organization must be given first, followed by the name of the parent organization. The name of the parent organization may be placed in parentheses and, if well known, may be abbreviated. Examples:

The Lotus Club, an unincorporated association 12–3456789.

Local 447, Brotherhood of Railroad Trainmen, an unincorporated association 12–3456789.

Eureka Lodge No. 317 (A.F. & A.M.), an unincorporated association 12–3456789.

(4) *Partnerships.*—A bond may be registered in the name of a partnership, which will be considered as an entity. The words "a partnership" must be included in the registration. Examples:

Smith & Jones, a partnership 12–3456789.

Acme Novelty Co., a partnership 12–3456789.

(d) *Institutions (churches, hospitals, homes, schools, etc.).*—A bond may be registered in the name of a church, hospital, home, school, or similar institution conducted by a private organization or by private trustees, regardless of the manner in which it is organized or governed or title to its property is held. Descriptive words such as "a corporation" or "an unincorporated association" must not be included in the registration. Examples:

Shriners' Hospital for Crippled Children, St. Louis, Mo., 12–3456789.

St. Mary's Roman Catholic Church, Albany, N.Y., 12–3456789.

Rodeph Shalom Sunday School, Philadelphia, Pa., 12–3456789.

(e) *States, public bodies and corporations and public officers.*[2]—A bond may be registered in the name of a State, 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 of the funds. Examples:

State of Maine.

Town of Rye, N.Y. (Street Improvement Fund).

Maryland State Highway Administration.

Treasurer, City of Chicago.

(f) *Treasurer of the United States as coowner or beneficiary.*—A person who desires to have a bond become the property of the United States upon his death may designate the Treasurer of the United States as coowner or beneficiary. Examples:

George T. Jones 123–45–6789 or the Treasurer of the United States of America.

George T. Jones 123–45–6789 P.O.D. the Treasurer of the United States of America.

§ 315.8 Unauthorized registration.

A savings bond inscribed in a form not substantially in agreement with one of those authorized by this subpart will not be considered as validly issued. However, if the form of registration was not authorized under the regulations in effect at the time of issuance but is authorized under regulations in effect at the time the bond is presented for payment or reissue, it will be considered as having been validly issued from the date of original issue.

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[2] Set footnote 2 on p. 211.

SUBPART C—LIMITATION ON HOLDINGS

§ 315.10 Amounts which may be held.

The amounts of savings bonds of Series E and H, issued in any one calendar year, which may be held by any one person at any one time, computed in accordance with the provisions of § 315.11, are limited as follows:

(a) *Series E*—(1) *General annual limitations.*

Bonds issued:	*Limit*
May 1941 through December 1947	$5,000 (face amount)
January 1948 through December 1951	10,000 (face amount)
January 1952 through April 1957	20,000 (face amount)
May 1957 through December 1965	10,000 (face amount)
(A person holding $10,000 (face amount) or more purchased between Jan. 1, 1957, and Apr. 30, 1957, was not entitled to additional holdings during the remainder of 1957.)	
January 1966 through November 1969	20,000 (face amount)
December 1, 1969, and thereafter	5,000 (issue price)
(A person holding $5,000 (issue price) or more purchased between Jan. 1, 1969, and Nov. 30, 1969, was not entitled to additional holdings during the remainder of 1969. $5,000 (issue price) will purchase $6,650 (face amount).)	

(2) *Special limitation.*—Trustees of an employees' savings plan (as defined in Department Circular No. 653, current revision, 31 CFR, Part 316) and trustees of an eligible savings and vacation plan may purchase $2,000 (face amount) multiplied by the highest number of employees participating in the plan at any time during the calendar year in which the bonds are issued.

(b) *Series H*—(1) *General annual limitations.*

Bonds issued:	*Limit*
June 1952 through April 1957	$20,000 (face amount)
May 1957 through December 1961	10,000 (face amount)
(A person holding $10,000 (face amount) or more purchased between Jan. 1, 1957, and Apr. 30, 1957, was not entitled to additional holdings during the remainder of 1957.)	
January 1962 through December 1965	20,000 (face amount)
January 1966 through November 1969	30,000 (face amount)
Dec. 1, 1969, and thereafter	5,000 (face amount)
(A person holding $5,000 (face amount) or more purchased between Jan. 1, 1969, and Nov. 30, 1969, was not entitled to additional holdings during the remainder of 1969.)	

(2) *Special limitation.* $200,000 (face amount) for the calendar year 1966 and each calendar year thereafter for bonds received as gifts by an organization which at the time of purchase was an exempt organization under the terms of 26 CFR 1.501(c)(3)-1.

§ 315.11 Computation of amount.

(a) *Definition of "person"*.—The term "person" for purposes of this section shall mean any legal entity and shall include but not be limited to natural persons, corporations (public or private), partnerships, unincorporated associations, and trust estates. The holdings of each person individually and his holdings in any fiduciary capacity authorized by these regulations, such as, for example, his holdings as a guardian of the estate of a minor, as a life tenant, or as trustee under a will or deed of trust, shall be computed separately. A pension or retirement fund or an investment, insurance, annuity or similar fund or trust will be regarded as an entity regardless of the number of beneficiaries or the manner in which their respective interests are established or determined. Segregation of individual shares as a matter of bookkeeping or as a result of individual agreements with beneficiaries or the express designation of individual shares as separate trusts will not serve to constitute them separate "persons" for purposes of this section.

(b) *Bonds that must be included in computation.*—Except as provided in paragraph (c) of this section, there must be taken into account in computing the holdings of each person:

(1) All bonds registered in the name of that person alone;

(2) All bonds registered in the name of the representative of the estate of that person;

(3) All bonds originally registered in the name of that person as coowner or reissued at the request of the original owner to add the name of that person as coowner or to designate him as coowner instead of as beneficiary. However, the amount of bonds of Series E and H held in coownership form may be applied to the holdings of either of the coowners or apportioned between them.

(c) *Bonds that may be excluded from computation.*—There need not be taken into account:

(1) Bonds on which that person is named beneficiary;

(2) Bonds in which his interest is only that of a beneficiary under a trust;

(3) Bonds to which he has become entitled under Sec. 315.67 as surviving beneficiary upon the death of the registered owner, as an heir or legatee of the deceased owner, or by virtue of the termination of a trust or the happening of any other event;

(4) Bonds of Series E purchased with the proceeds of matured bonds of Series A, C–1938, and D, where such matured bonds were presented for that purpose;

(5) Bonds of Series E bearing issue dates from May 1, 1941, to December 1, 1945, inclusive, held by individuals in their own right which are not more than $5,000 (face amount) in excess of the prescribed limit;

(6) Bonds of Series E or H reissued under Sec. 315.61(a);

(7) Bonds of Series E or H reissued in the name of a trustee of a personal trust estate which did not represent excess holdings prior to such reissue;

(8) Bonds of Series E or H purchased with the proceeds of bonds of Series F, G, J, or K, at or after maturity, where such matured bonds had been presented for that purpose;

(9) Bonds of Series H issued in exchange for bonds of Series E, F, or J, and savings notes under the provisions of Department Circular No. 1036 (31 CFR, Part 339) as in effect at the time of the exchange.

§ 315.12 Disposition of excess.

If any person at any time acquires savings bonds issued during any one calendar year in excess of the prescribed amount, instructions should be obtained from the Bureau of the Public Debt for appropriate adjustment of the excess.

For good cause found the Secretary of the Treasury may permit excess holdings to stand in any particular case or class of cases.

SUBPART D—LIMITATIONS ON TRANSFER OR PLEDGE

§ 315.15 Limitation on transfer or pledge.

Savings bonds are not transferable and are payable only to the owners named thereon, except as specifically provided in these regulations, and then only in the manner and to the extent so provided. A savings bond may not be hypothecated, pledged as collateral, or used as security for the performance of an obligation, except as provided in Sec. 315.16.

§ 315.16 Pledge under Department Circulars No. 154 and Public Debt Series No. 4–67.

A bond may be pledged by the registered owner in lieu of surety under the provisions of Department Circular No. 154, current revision (31 CFR, Part 225), if the bond approving officer is the Secretary of the Treasury. In this case an irrevocable power of attorney shall be executed authorizing the Secretary of the Treasury to request payment. A bond may also be deposited as security with a Federal Reserve Bank under the provisions of Department Circular, Public Debt Series No. 4–67, current revision (31 CFR, Part 317).

SUBPART E—LIMITATION ON JUDICIAL PROCEEDINGS—NO STOPPAGE OR CAVEATS PERMITTED

§ 315.20 General.

(a) No judicial determination will be recognized which would give effect to an attempted voluntary transfer inter vivos of a bond, whether between persons designated thereon, or otherwise, or which would defeat or impair the rights of survivorship conferred by these regulations upon a surviving coowner or beneficiary, and all other provisions of this subpart are subject to this restriction. Otherwise, a claim against an owner or coowner of a savings bond and conflicting claims as to ownership of, or interest in, such bond as between coowners or between the registered owner and beneficiary will be recognized when established by valid judicial proceedings, upon presentation and surrender of the bond, but only as specifically provided in this subpart.[6]

(b) Neither the Treasury Department nor any agency for the issue, reissue, or redemption of savings bonds will accept notices of adverse claims or of pending judicial proceedings or undertake to protect the interests of litigants who do not have possession of the bonds.

§ 315.21 Payment to judgment creditors.

(a) *Creditors.*—Payment (but not reissue) of a savings bond registered in single ownership, coownership, or beneficiary form will be made to the purchaser at a sale under a levy or to the officer authorized to levy upon the property of the registered owner or coowner under appropriate process to satisfy a money judgment. Payment will be made to such purchaser or officer only to the extent necessary to satisfy the judgment and will be limited to the redemption value current sixty days after the termination of judicial proceedings. Payment of a bond registered in coownership form pursuant to a judgment or levy against only one of the coowners will be limited to the extent of that coowner's interest in the bond. This interest may be established by an agreement between the coowner or by a judgment, decree, or order of court entered in a proceeding to which both coowners are parties.

(b) *Trustees in bankruptcy and receivers.*—Payment of a savings bond will be made to a trustee in bankruptcy, a receiver of an insolvent's estate, a receiver in equity, or a similar officer of the court, under the applicable provisions of paragraph (a) of this section, except that payment will be made at the redemption value current on the date of payment.

§ 315.22 Payment or reissue pursuant to judgment.

(a) *Divorce.*—A decree of divorce ratifying or confirming a property settlement agreement or otherwise settling the respective interests of the parties in a bond will not be regarded as a proceeding giving effect to an attempted voluntary transfer under the provisions of § 315.20. Accordingly, reissue of a savings bond may be made to eliminate the name of one spouse as owner, coowner, or beneficiary, or to substitute the name of one spouse for that of the other as owner, coowner, or beneficiary pursuant to such a decree. However, if the bond is registered in the name of one of the spouses with another person as coowner, there must be submitted either a request for reissue by such person or a certified copy of a judgment, decree, or order entered in a proceeding to which such other person and the spouse whose name is to be eliminated are parties determining the extent of the interest of that spouse in the bond and reissue will be permitted only to the extent of the spouse's interest. The evidence required under § 315.23 must be submitted in any case. Where the decree of divorce does not set out the terms of the property settlement agreement, a certified copy of the agreement must also be submitted. Payment rather than reissue will be made if requested.

(b) *Gifts causa mortis.*—A bond belonging solely to one person will be paid or reissued on the request of the person found by a court to be entitled thereto by reason of a gift causa mortis by the sole owner.

(c) *Date for determining rights.*—For the purpose of determining whether or not reissue shall be made under this section pursuant to judicial proceedings, the rights of all parties involved shall be those existing under these regulations at the time of the entry of the final judgment, decree, or order.

§ 315.23 Evidence necessary.

To establish the validity of judicial proceedings, there must be submitted certified copies of a final judgment, decree, or order of court and of any necessary supplementary proceedings. If the judgment, decree, or order of court was rendered more than six months prior to the presentation of the bond, there must also be submitted a certificate from the clerk of the court, under its seal, dated within six months of the presentation of the bond showing that the judgment, decree, or order of court is in full force. A request for payment by a trustee in bankruptcy must be supported by duly certified evidence of his appointment and qualification. A request for payment by a receiver of an insolvent's estate must be supported by a copy of the order appointing him, certified by the clerk of the court, under its seal, as being in full force on a date not more than six months prior to the date of the presentation of the bond. A request for payment by a receiver in equity or a similar officer of the court, other than a receiver of an in-

[6] Title to a savings bond claimed by a finder or a purchaser will not be recognized.

solvent's estate, must be supported by a copy of an order authorizing him to present the bond for redemption, certified by the clerk of the court, under its seal, as being in full force on a date not more than six months prior to the presentation of the bond.

SUBPART F—RELIEF FOR LOSS, THEFT, DESTRUCTION, MUTILATION, DEFACEMENT, OR NONRECEIPT OF BONDS

§ 315.25 After receipt by owner or his representative.

Relief, either by the issue of a substitute bond or by payment, is authorized for the loss, theft, destruction, mutilation, or defacement of a bond after receipt by the owner or his representative. As a condition for granting relief, the Secretary of the Treasury may require a bond of indemnity, in such form and with such surety as may be deemed necessary to protect the interests of the United States of America. In all cases the bond must be identified and the applicant must submit satisfactory evidence of loss, theft, or destruction, or a satisfactory explanation of the mutilation, or defacement.

§ 315.26 Procedure to be followed.

(a) Immediate notice of the facts concerning the loss, theft, destruction, mutilation, or defacement of a bond, together with its complete description (series, year, and month of issue, serial number, name and address of the registered owner or coowners), and the appropriate social security number, should be furnished to the Bureau of the Public Debt, P.O. Box 509, Parkersburg, West Virginia 26101. Defaced bonds and all available fragments of mutilated bonds in any form whatsoever should be submitted. That office will furnish the proper application form and instructions. The application must be made by the person or persons (including both coowners, if living), authorized under these regulations to request payment of the bond, except as follows:

(1) If the bond is in beneficiary form and the owner and beneficiary are both living, both ordinarily will be required to join in the application.

(2) If a minor named on a bond as owner, coowner, or beneficiary is not of sufficient competency and understanding to request payment, both parents ordinarily will be required to join in the application.

§ 315.27 Nonreceipt of bond.

If a bond, on original issue or on reissue, is not received from the issuing agent by the registered owner or other person to whom delivery of the bond was directed, the issuing agent should be notified as promptly as possible and given all information available about the transaction. The agent will then obtain appropriate instructions and a form for applying for relief. Following approval of the application, relief will be granted by the issuance of a bond bearing the same issue date as the bond which was not received.

§ 315.28 Recovery or receipt of bond reported lost, stolen, destroyed or not received.

If a bond reported lost, stolen, destroyed, or not received, is recovered or received before relief is granted, the Bureau of the Public Debt should be notified promptly. A bond which is recovered after relief therefor has been granted belongs to the United States and shall be promptly surrendered for cancellation.

SUBPART G—INTEREST

§ 315.30 General.

The only savings bonds currently on sale are (a) Series E bonds, which are appreciation bonds issued at a discount and redeemable before final maturity at increasing redemption values; and (b) Series H bonds, which are current-income bonds issued at par (face amount), paying interest semiannually to maturity, or extended maturity, where authorized. Series H bonds are redeemable at par at any time after six months from issue date. Series E bonds, and Series H bonds having extended maturity periods, continue to earn interest when held to their final maturity dates.[1] Savings notes, the sale of which terminated at the close of business on June 30, 1970, have been extended for ten years.

[1] See Appendices to current revisions of Department Circulars No. 653 and No. 905 (31 CFR Parts 316 and 332) concerning extensions and investment yields for Series E and Series H bonds, respectively. See Department Circular, Public Debt Series No. 3–67, Revised, as amended (31 CFR Part 342), concerning the extension and investment yields for savings notes (Freedom Shares).

§ 315.31 Series E bonds.

For the first six months from issue date, a Series E bond is redeemable only at purchase price. Thereafter, its redemption value increases at the beginning of each successive half-year period and at maturity, and at the beginning of each successive half-year period, and at final maturity.[1] The increment in value (interest) on a Series E bond is payable only on its redemption.

§ 315.32 Series H bonds.

(a) *Interest.*—Interest on a Series H bond is paid semiannually by check, beginning six months from issue date. Interest will cease at maturity or extended maturity for bonds having extended maturity periods, or if redeemed before maturity or extended maturity,[1] at the end of the interest period next preceding the date of redemption. However, if the date of redemption falls on an interest payment date, interest will cease on that date. For example, if a bond on which interest is payable on January 1 and July 1 is redeemed on September 1, interest will cease on the preceding July 1, and no adjustment of interest will be made for the period from July 1 to September 1. The same rules apply in case of partial redemption with respect to the amount redeemed.

(b) *Method of interest payments.*—Interest due on a Series H bond will be paid on each interest payment date by check drawn to the order of the person or persons in whose names the bond is inscribed, in the same form as their names appear in the inscription on the bond, and mailed to the address of record (that given for the delivery of interest checks in the application for purchase or the request for reissue or, if no instruction is given as to the delivery of interest checks, the address given for the owner or the first-named coowner), except that:

(1) In the case of a bond registered in the form "A payable on death to B" the check will be drawn to the order of "A" alone until the Bureau of the Public Debt receives notice of A's death. At that time the payment of interest will be suspended until the bond is presented for payment or reissue. Interest so withheld will be paid to the person entitled to the bond.

(2) Upon receipt of notice of the death of the coowner to whom interest is being mailed, payment of interest will be suspended until a request for change of address is received from the other coowner, if living, or, if not, until satisfactory evidence is submitted as to who is authorized to endorse and collect such checks on behalf of the estate of the last deceased coowner in accordance with the provisions of Subpart O.

(3) Upon receipt of notice of the death of the owner of a bond, payment of interest on the bond will be suspended until satisfactory evidence is submitted as to who is authorized to endorse and collect such checks on behalf of the estate of the decedent, in accordance with the provisions of Subpart O.

(4) Whenever practicable the accounts for all Series H bonds with the same inscription, on which interest is payable on the same dates, will be consolidated and a single check will be issued on each interest payment date for interest on all such bonds. The check inscription may vary from the inscriptions on the bonds in cases of very long inscriptions or where there is lack of uniformity in the inscriptions on the bonds.

(c) *Notices affecting delivery of interest checks.*—Notices affecting the delivery of interest checks on Series H bonds, including changes in addresses, should be sent to the Bureau of the Public Debt, 536 South Clark Street, Chicago, Illinois 60605. Each bond should be described in the notice by issue date (including year of issue), serial number, series, inscription appearing on the face of the bond, and the social security number furnished. Bonds should not be submitted. The notice must be signed by the owner or a coowner, or in the case of a minor or incompetent, as provided in (d) or (e) of this section. If the notice is not received at least one month before an interest payment date, no assurance can be given that action can be taken in time to make the change, or suspend the mailing of the interest due on that date.

(d) *Representative appointed for the estate of a minor, incompetent, absentee, etc.*—Interest on Series H bonds will be paid, in accordance with the provisions of § 315.50, to the representative appointed for the estate of an owner who is a minor, incompetent, absentee, etc. If the registration of the bonds does not include reference to the owner's status, the bonds should be submitted for reissue to the Bureau of the Public Debt, at the address shown in paragraph (c) of this section, or to a Federal Reserve Bank so that interest checks may be properly drawn and delivered. They must be accompanied by the proof of appointment required by § 315.50.

(e) *Adult incompetent's estate having no representative.*—If an adult owner of a Series H bond is incompetent to endorse and collect the interest checks and no legal guardian or similar representative has been appointed to act for him, the relative responsible for his care and support, or some other appropriate person, may apply to the Bureau of the Public Debt for recognition as voluntary guardian for the purpose of receiving, endorsing, and collecting the checks. Form PD 2513 should be used in making application for this purpose.

(f) *Reissue during interest period.*—Physical reissue of a Series H bond will be made as soon as practicable without regard to interest payment dates. If a bond is reissued between interest payment dates, interest for the entire period will ordinarily be paid on the next interest payment date by check drawn to the order of the person in whose name the bond is reissued. However, if reissue is made during a month preceding an interest payment date, the interest due on the first day of the next month may in some cases be paid to the former owner or the representative of his estate.

(g) *Endorsement of checks.*—Interest checks may be collected upon the endorsement of the payee or his authorized representative in accordance with the regulations governing the endorsement and payment of Government warrants and checks, which are contained in Department Circular No. 21, current revision (31 CFR, Part 360). A form for the appointment of an attorney in fact for this purpose may be obtained from the Office of the Treasurer of the United States or from any Federal Reserve Bank. If the owner is incompetent or deceased and no legal representative of his estate has been or will be appointed, the Bureau of the Public Debt (see (c) of this section for address), or a Federal Reserve Bank will furnish instructions upon request.

(h) *Nonreceipt or loss of check.*—If an interest check is not received or is lost after receipt, the Bureau of the Public Debt should be notified of the facts and given information concerning the amount, number, inscription of the bonds, and social security number, as well as a description of the check, if possible.

SUBPART H—GENERAL PROVISION FOR PAYMENT AND REDEMPTION

§ 315.35 Payment or redemption.

(a) *General.*—Payment of a savings bond will be made to the person or persons entitled thereto under the provisions of these regulations, except that checks in payment will not be delivered to addresses in areas with respect to which the Department of the Treasury restricts or regulates the delivery of checks drawn against funds of the United States or any agency or instrumentality thereof.[3] Payment will be made without regard to any notice of adverse claims to a bond and no stoppage or caveat against payment of the bond will be entered. Pursuant to its terms, a savings bond may not be called for redemption by the Secretary of the Treasury prior to maturity, or the end of any authorized extension period. However, a bond may be redeemed in whole or in part at the option of the owner prior thereto, under the terms and conditions set forth in the offering circular for each series and in accordance with the provisions of these regulations. On or after the maturity date, or the final extended maturity date, the bond will be paid at the maturity value or the extended maturity value fixed by the terms of the circular and in no greater amount.

(b) *Series E.*—A Series E bond will be redeemed at any time after two months from issue date at the appropriate redemption value shown in the revision of Department Circular No. 653 current at the time of redemption.

(c) *Series H.*—A Series H bond will be redeemed at par after six months from issue date. However, a bond received for redemption during the calendar month preceding an interest payment date will not be redeemed until that date. On or after the maturity date, or the final extended maturity date, a bond presented for redemption will be paid at par.

§ 315.36 Withdrawal of request for redemption.

An owner or a coowner who has presented and surrendered a bond to the Department of the Treasury or a Federal Reserve Bank or Branch or to an authorized paying agent with an appropriate request for payment may withdraw such request if notice of intent to withdraw is given to and received by the same

[3] See Department Circular No. 655, current revision (31 CFR, Part 211).

agency to which the bond was presented for payment prior to the issuance of a check in payment or prior to payment by the authorized paying agent. Such request may be withdrawn under the same conditions by the executor or administrator of the estate of a deceased owner or by the person or persons who would have been entitled to the bond under Subpart O, or by the legal representative of the estate of a person under legal disability, unless presentation and surrender of the bond have cut off rights of survivorship under the provisions of Subpart M or Subpart N.

§ 315.37 Requests for payment.

(a) *Form and execution of requests.*—A request for payment of a bond must be executed on the form appearing on the back of the bond unless (1) the bond is accepted by an authorized paying agent for payment or for presentation to a Federal Reserve Bank for payment without the owner's signature to the request for payment under the provisions of Department Circular No. 888, current revision (31 CFR, Part 330), or (2) authority is given for the execution of a separate or detached request.

(b) *Date of request.*—Ordinarily, requests executed more than six months before the date of receipt of a bond for payment will not be accepted; nor will a bond ordinarily be accepted for redemption more than three calendar months prior to the date redemption is requested under these regulations.

(c) *Identification and signature.*—Unless the bond is presented under provisions of paragraph (a) of this section or paragraph (b) of § 315.38, the owner or a coowner whose name is inscribed on the bond, or other persons entitled to payment under the provisions of these regulations, must appear before and establish his identity to an officer authorized to certify requests for payment (see Subpart I), and in the presence of such officer sign the request for payment in ink, adding in the space provided the address to which the check issued in payment is to be mailed. A signature by mark (X) must be witnessed by at least one disinterested person in addition to the certifying officer and must be attested by endorsement in the blank space, substantially as follows: "Witness to signature by mark" followed by the signature and address of the witness. If the name of the owner, coowner or other person entitled to payment, as it appears in the registration or in evidence on file in the Bureau of the Public Debt, has been changed by marriage or in any other legal manner, the signature to the request for payment must show both names and the manner in which the change was made, for example, "Mrs. Mary T. Jones Smith (Mrs. Mary T. J. Smith or Mrs. Mary T. Smith) changed by marriage from Miss Mary T. Jones," or "John R. Young, changed by order of court from Hans R. Jung." (See Sec. 315.49.) No request signed in behalf of the owner, a coowner or person entitled to payment by an agent or a person acting under a power of attorney will be recognized by the Department of the Treasury, except when the bond has been pledged in lieu of surety under Department Circular No. 154, current revision (31 CFR, Part 225), as provided in § 315.16.

(d) *Certification of request.*—After the request for payment has been signed by the owner, the certifying officer should complete and sign the certificate thereunder and the bond should then be presented and surrendered as provided in Sec. 315.38(a).

§ 315.38 Presentation and surrender.

(a) *All series.*—Except for cases coming within the provisions of paragraph (b) of this section, after the request for payment has been duly signed by the owner and certified as provided in Subpart I, the bond should be presented and surrendered to (1) a Federal Reserve Bank or Branch, (2) the Bureau of the Public Debt, or (3) the Office of the Treasurer of the United States, Securities Division. Usually, payment will be expedited by surrender to a Federal Reserve Bank or Branch. In all cases presentation will be at the expense and risk of the owner. Payment will be made by check drawn to the order of the registered owner or other person entitled and mailed to the address given in the request for payment or, if no address is given, to the address shown in instructions accompanying the bond.

(b) *Optional procedure for bonds of Series A to E, inclusive, in the names of individual owners or coowners only.*—A natural person whose name is inscribed on the face of a bond of Series A, B, C, D, or E, either as owner or coowner in his own right, may present such bond for redemption to an authorized paying agent.

If such a person is not known to the paying agent, he must establish his identity to the agent. (See § 315.43.) Such owner or coowner must sign the request for payment, and add his home or business address. Even though the request for payment may have been signed, or signed and certified, before presentation of the bond, the representative of the paying agent must be satisfied that the person presenting the bond for payment is the owner or coowner and may require him to sign the request for payment again. If the bond is in order for payment, the paying agent will make immediate payment at the appropriate redemption value without charge to the owner or coowner. This procedure is not applicable to partial redemption cases, or deceased owner cases, or other cases in which documentary evidence is required.

§ 315.39 Partial redemption.

A bond of any series may be redeemed in part at current redemption value, but only in amounts corresponding to authorized denominations, upon presentation and surrender of the bond in accordance with § 315.38(a). In any case in which partial redemption is authorized, before the request for payment is signed, the phrase "to the extent of $______ (face amount) and reissue of the remainder" should be added to the first sentence of the request. Upon partial redemption of the bond, the remainder will be reissued as of the original issue date, as provided in Subpart J. For payment of interest on Series H bonds in case of partial redemption, see Subpart G of this part.

§ 315.40 Nonreceipt or loss of check issued in payment.

In case a check in payment of a bond surrendered for redemption is not received within a reasonable time, or the check is lost after receipt, notice should be given to the same agency to which the bond was surrendered for payment, accompanied by a description of the bond by series, denomination, serial number, registration, and social security number. The notice should state whether or not the check was received and should give the date upon which the bond was surrendered for payment.

SUBPART I—CERTIFYING OFFICERS

§ 315.42 Persons who may certify.

The following persons are authorized to act as certifying officers for the purpose of certifying requests for payment and forms with respect to bonds:

(a) *At United States post offices.*—Any postmaster, officer-in-charge or other post office official or clerk designated for that purpose. One or more of these officials will be found at every United States post office, classified branch, or station. A post office official or clerk, other than a postmaster or officer-in-charge, should certify in the name of the postmaster or officer-in-charge, followed by his own signature and official title, for example, "John Doe, postmaster, by Richard Roe, his designee." Signatures of these officers should be authenticated by a legible imprint of the post office dating stamp.

(b) *At banks, trust companies and member organizations of the Federal Home Loan Bank System.*—Any officer of any bank or trust company incorporated in the United States, its territories or possessions, or the Commonwealth of Puerto Rico, any Federal Savings and Loan Association or other organization which is a member of the Federal Home Loan Bank System, or a domestic or foreign branch of any such institution; any officer of a Federal Reserve Bank, Federal Land Bank, or Federal Home Loan Bank; any employee of any such institution expressly authorized by it for that purpose, who must sign over the title "Designated Employee"; and Federal Reserve Agents and Assistant Agents located at the several Federal Reserve Banks. Certifications by any of these officers or designated employees must be authenticated by either a legible impression of the corporate seal of the institution or, in the case of organizations which are authorized issuing agents for bonds of Series E, by a legible imprint of the issuing agent's dating stamp.

(c) *Issuing agents not banks or trust companies.*—Any officer of a corporation not a bank or trust company and of any other organization which is an authorized issuing agent for bonds of Series E. All certifications by such officers must be authenticated by a legible imprint of the issuing agent's dating stamp.

(d) *Commissioned and warrant officers of Armed Forces.*—Commissioned and warrant officers of any of the Armed Forces of the United States, but only for members and the families of members of their respective services and civilian employees at Posts or Bases or Stations. Such certifying officer should indicate his rank and state that the person signing the request is one of the class whose request he is authorized to certify.

(e) *United States officials.*—Judges, clerks, and deputy clerks of United States courts, including United States courts for the territories, possessions, the Commonwealth of Puerto Rico, and the Canal Zone; United States Commissioners; United States Attorneys; United States Collectors of Customs and their deputies; Regional Commissioners, District Directors, Service Center Directors, and Internal Revenue agents, Internal Revenue Service; the officer in charge of any home, hospital, or other facility of the Veterans Administration, but only for patients and employees of such facilities; certain officers of Federal penal institutions designated for that purpose by the Secretary of the Treasury; certain officers of the United States Public Health Service Hospitals at Lexington, Kentucky, and Carville, Louisiana, designated for that purpose by the Secretary of the Treasury (in each case, however, only for patients or employees of the institution involved).

(f) *Officers authorized in particular localities.*—Certain designated officers in the Department of the Treasury; the Governor and Treasurer of Puerto Rico; the Governor and Commissioner of Finance of the Virgin Islands; the Governor and Director of Finance of Guam; the Governor and Director of Administrative Services of American Samoa; the Governor, paymaster, or acting paymaster and collector or acting collector of the Panama Canal; and postmasters and acting postmasters of the Bureau of Posts of the Canal Zone.

(g) *In foreign countries.*—In a foreign country requests for payment may be signed in the presence of and be certified by any United States diplomatic or consular representative, or the manager or other officer of a foreign branch of a bank or trust company incorporated in the United States whose signature is attested by an impression of the corporate seal or is certified to the Department of the Treasury. If such an officer is not available, requests for payment may be signed in the presence of and be certified by a notary or other officer authorized to administer oaths, but his official character and jurisdiction should be certified by a United States diplomatic or consular officer under seal of his office.

(h) *Special provisions.*—In the event no officer authorized to certify requests for payment of bonds is readily accessible, the Commissioner of the Public Debt, a designated official of the Bureau of the Public Debt, the Treasurer of the United States, or any Federal Reserve Bank or Branch is authorized to make special provision for any particular case.

§ 315.43 General instructions to certifying officers.

A certifying officer should require that a person presenting bonds, or forms with respect thereto, establish his identity by positive and reliable evidence before the bonds or forms are signed, unless the presenter is personally well known to the officer. Such officer and, if he is an officer or employee of an organization, the organization will be held fully responsible for the adequacy of the identification. The certifying officer should place an adequate notation on the back of the bond or form, or on a separate record, showing exactly how identification was established. The certifying officer must affix to the certification his official signature, title, seal or dating stamp, address (if not shown in the seal or stamp), and the date of execution. Officers of the Public Health Service Hospitals, Veterans Administration Facilities and Federal penal institutions should use the seal of the particular institution or service, where such seal is available. A certifying officer, other than a post office official, officer of a bank or trust company, or officer of an issuing agent, who does not possess an official seal, should add a statement to that effect to his certification.

§ 315.44 Interested person not to certify.

A certifying officer may not certify a request for payment of a bond, or a form with respect to a bond, in which he has or is acquiring an interest, either in his own right or in a representative capacity.

SUBPART J—REISSUE AND DENOMINATIONAL EXCHANGE

§ 315.45 General.

Reissue of a bond may be made only under the conditions specified in these regulations. Reissue is not authorized solely for the purpose of effecting an exchange as between authorized denominations, but in the case of authorized reissue the new bond or bonds may be issued in any authorized denomination or denominations.

Reissue will not be made if the request therefor is received less than one full calendar month before the final maturity date of a bond. Such request, however, will be effective to establish ownership as though the requested reissue had been made.

(a) A request for reissue of a bond received on or after its final maturity date will not be effective to name a coowner or beneficiary or to promote a beneficiary to a coowner, but requests for reissue in the names of persons who have become entitled by operation of law will be recognized as establishing the right of those persons to receive payment. Reissues under the provisions of this subpart may be made only at (1) a Federal Reserve Bank or Branch, (2) the Bureau of the Public Debt, or (3) the Office of the Treasurer of the United States, Securities Division.

§ 315.46 Requests for reissue.

A request for reissue should be made on the prescribed form by the person authorized under these regulations to make such request. Appropriate forms may be obtained from any Federal Reserve Bank, the Office of the Treasurer of the United States, Securities Division, or the Bureau of the Public Debt.

§ 315.47 Effective date.

In any case of authorized reissue, the Department of the Treasury will treat the receipt by (a) a Federal Reserve Bank or Branch, or (b) the Bureau of the Public Debt, or (c) the Office of the Treasurer of the United States, Securities Division, of a bond and an appropriate request for reissue thereof as determining the date upon which the reissue is effective. If the owner or either coowner of a bond dies after he has presented and surrendered the bond for authorized reissue, the bond will be regarded as though reissued in the decedent's lifetime.

§ 315.48 Correction of errors.

Reissue of a bond may be made to correct an error in the original issue, upon appropriate request supported by satisfactory proof of the error.

§ 315.49 Change of name.

An owner, coowner, or beneficiary whose name is changed by marriage, divorce, annulment, order of court, or in any other legal manner after the issue of a bond should submit the bond with a request on Form PD 4000 for reissue to substitute the new name for the name inscribed on the bond. The signature to the request for reissue should show the new name, the manner in which the change was made and the former name. Documentary evidence, properly certified, may be required in any appropriate case.

SUBPART K—MINORS, INCOMPETENTS, AGED PERSONS, ABSENTEES, ETC.

§ 315.50 Payment to representative of estate.

(a) If the registration of a bond shows the name of the representative of the estate of the owner or a coowner who is a minor, an incompetent, aged person, absentee, etc., the representative may obtain payment of the bond without submitting evidence of his representative capacity. In the event the representative's name is not shown, a certificate, or a certified copy of the letters of appointment, from the court making the appointment, under court seal, or other proof of qualification if not appointed by a court, must be submitted. Except in the case of corporate fiduciaries, such evidence must show that the appointment is in full force and be dated not more than one year prior to presentation of the bond for payment. After the death of the ward, and at any time prior to his discharge, the representative of the estate will be entitled to obtain payment of a bond to which the ward was solely entitled. The request for payment appearing on the back of a bond must be signed by the representative as such, for example, "John S. Jones, guardian (committee) of the estate of Henry W. Smith, a minor (an incompetent)."

(b) If the form of registration does not indicate there is a representative of the estate of a minor owner or coowner, a notice that there is such a representative will not be accepted for the purpose of preventing payment to the minor or to a parent or other person on behalf of the minor, as provided in §§ 315.51 and 315.52.

§ 315.51 Payment to minors.

If the owner of a savings bond is a minor and the form of registration does not indicate that there is a representative of his estate, payment will be made to him upon his request, provided he is of sufficient competency to sign his name to the request for payment and to understand the nature of the transaction. In general, the fact that the request for payment has been signed by a minor and duly certified will be accepted as sufficient proof of competency and understanding.

§ 315.52 Payment to a parent or other person on behalf of a minor.

If the owner of a savings bond is a minor and the form of registration does not indicate that there is a representative of his estate, and if such minor owner is not of sufficient competency to sign his name to the request for payment and to understand the nature of the transaction, payment will be made to either parent with whom he resides or, if the minor does not reside with either parent, then to the person who furnishes his chief support. His parent or the person furnishing his chief support should execute the request for payment and furnish a certificate, which may be typed or written on the back of the bond, as to his right to act for the minor. If a parent signs the request, the certificate and signature thereto should be in substantially the following form:

> I certify that I am the mother of John C. Jones and the person with whom he resides. He is ______ years of age and is not of sufficient competency and understanding to make this request.
>
> Mrs. Mary Jones on behalf of John C. Jones.

If a person other than a parent signs the request, the certificate and signature thereto, including a reference to the person's relationship, if any, to the minor, should be in substantially the following form:

> I certify that John C. Jones does not reside with either parent and that I furnish his chief support. He is ______ years of age and is not of sufficient competency and understanding to make this request.
>
> Mrs. Alice Brown, grandmother, on behalf of John C. Jones.

§ 315.53 Payment or reinvestment upon request of voluntary guardian of incompetent.

If the adult owner of bonds is incompetent to request and receive payment thereof and no other person is legally qualified to do so, the relative responsible for his care and support or some other person may submit an application seeking recognition as voluntary guardian for the purpose of redeeming the bonds in the following situations:

(a) If the proceeds of the bonds are needed to pay expenses already incurred, or to be incurred during any 90-day period, for the support of the incompetent or his legal dependents;

(b) If the bonds have matured and it is desired to redeem them and reinvest the proceeds in savings bonds. The proceeds of any matured appreciation type bonds ordinarily will be required to be reinvested in Series E bonds. The proceeds of matured current income bonds may be invested in Series H or Series E bonds. The new bonds must be registered in the name of the incompetent followed by words showing he is under voluntary guardianship, for example, "John Jones 123–45–6789 under voluntary guardianship." A living coowner or beneficiary named on the matured bonds must be designated on the new bonds unless he is a competent adult and furnishes a certified statement consenting to omission of his name. If an amount insufficient to purchase an additional bond of any authorized denomination of any series remains after the reinvestment, the voluntary guardian may, if he so desires, furnish additional funds sufficient to purchase another bond of either series in the lowest available denomination. If additional funds are not furnished, the remaining amount will be paid to the voluntary guardian for the use and benefit of the incompetent.

§ 315.54 Reissue.

A bond of which a minor or other person under legal disability is the owner or in which he has an interest may be reissued upon an authorized reissue transaction under the following conditions:

(a) A minor of sufficient competency to sign his name to the request and to understand the nature of the transaction may request reissue to add a coowner or beneficiary to a bond registered in his name alone or to which he is entitled in his own right.

(b) A bond on which a minor is named as beneficiary or coowner may be reissued in the name of a custodian for the minor under a statute authorizing gifts to minors upon the request of the adult whose name appears on the bond as owner or coowner.

(c) Except to the extent provided in paragraphs (a) and (b), above, and in paragraph (c) of § 315.61, reissue will be restricted to a form of registration which does not adversely affect the existing ownership or interest of the minor or such other person. Requests for reissue should be executed by the person authorized to request payment under §§ 315.50 and 315.52, or who may request recognition as voluntary guardian under § 315.53, and in the same manner.

SUBPART L—NATURAL PERSON AS SOLE OWNER

§ 315.55 Payment.

A savings bond registered in the name of a natural person in his own right, without a coowner or beneficiary, will be paid to him during his lifetime under Subpart H. Upon the death of the owner such bond will be considered as belonging to his estate and will be paid under Subpart O, except as otherwise provided in these regulations.

§ 315.56 Reissue for certain purposes.

A savings bond registered in the name of a natural person in his own right may be reissued upon appropriate request by him (subject to the provisions of § 315.54), upon presentation and surrender during his lifetime, for the following purposes:

(a) *Addition of a coowner or beneficiary.*—To name another natural person as coowner or as beneficiary. Form PD 4000 should be used.

(b) *Divorce or annulment.*—To name as registered owner the other party to a divorce or annulment occurring after issue of the bond. Form PD 3360 should be used.

(c) *Certain degrees of relationship.*—To name as registered owner a person related to the owner as set forth in § 315.61(a)(2), with a beneficiary or coowner, if so desired. (Form PD 3360 may be used.)

(d) *Trustees.*—To name as the trustee of (1) a personal trust estate created by the owner, or (2) a personal trust estate created by other than the owner provided (i) the owner is a beneficiary of the trust, or (ii) a beneficiary of the trust and the owner are related as set forth in § 315.61 (a)(2). (Form PD 1851 may be used.)

SUBPART M—TWO NATURAL PERSONS AS COOWNERS

§ 315.60 Payment during the lives of both coowners.

A savings bond registered in coownership form, for example, "John A. Jones or Mrs. Mary C. Jones," will be paid to either upon his separate request, and upon payment to him the other shall cease to have any interest in the bond. If both request payment jointly, payment will be made by check drawn to their order jointly, for example, "John A. Jones AND Mrs. Mary C. Jones."

§ 315.61 Reissue during the lives of both coowners.

(a) *General.*—A bond registered in coownership form may be reissued upon its presentation and surrender during the lifetime and competency of both coowners, upon the request of both, under the following conditions:

(1) *Marriage, divorce, or annulment of marriage.*—If one of the coowners marries, or if they are divorced or legally separated from each other, or their marriage to each other is annuled after issue of the bond, the bond may be reissued in the name of either coowner alone, or with another natural person as the new coowner or beneficiary.

(2) *Related coowners.*—If the coowners are related as: husband, wife; parent, child (including child by legal adoption or stepchild); brother, sister (including the half blood, stepbrother, stepsister, or brother or sister through adoption); grandparent, grandchild, great grandparent, great grandchild; uncle, aunt, nephew, niece (including a child of a brother or sister of the present spouse); granduncle, grandaunt, grandnephew, grandniece; father-in-law, mother-in-law, son-in-law, daughter-in-law; brother-in-law, sister-in-law—the bond may be issued in the name of:

(i) Either coowner alone, or with another natural person as the new coowner or beneficiary;

(ii) A third person related to either coowner in any of the foregoing degrees of relationship, with another natural person as coowner or beneficiary, if so desired (Form PD 1938 may be used for any of the above classes.) ; or

(iii) The trustee of (*a*) a personal trust estate created by either of them, or (*b*) a personal trust estate created by some other person provided (*1*) either coowner is a beneficiary of the trust, or (*2*) a beneficiary of the trust is related to either coowner in any of the foregoing degrees of relationship. (Form PD 1851 may be used.)

(3) A request for reissue to eliminate the name of one coowner may be signed by that coowner only.

(4) The provisions of this section do not apply to bonds on which the Treasurer of the United States is named as coowner.

(b) *Minor coowners.*—A minor coowner for whose estate no representative has been appointed may be promoted to sole owner upon the request of the competent coowner. A competent coowner may, upon his own request, have the bond reissued to remove his name and name a custodian for the minor under a statute authorizing gifts to minors. A request for reissue signed by a minor coowner of sufficient competency to sign his name to the request and understand the nature of the transaction, and for whose estate no representative has been appointed, will be recognized if the bond is to be reissued in his name with a new coowner or beneficiary. A request for reissue to eliminate the name of a minor coowner will be recognized only if supported by evidence that a court has ordered the representative of his estate to request such reissue (see § 315.23).

(c) *Incompetent coowners.*—Reissue will not be made if one coowner is incompetent and a representative of the incompetent's estate has not been appointed by a court, except to add "under voluntary guardianship" after his name or to eliminate the other coowner from the registration. If there is a representative, the provisions of paragraph (b) of this section apply as to his execution of a request for reissue.

§ 315.62 After the death of one or both coowners.

If either coowner dies without the bond having been presented and surrendered for payment or authorized reissue, the survivor will be recognized as the sole and absolute owner. Thereafter, payment or reissue will be made as though the bond were registered in the name of the survivor alone (see Subpart L of this part). However, a request for reissue by him must be supported by proof of death of the other coowner, and if the bond is still outstanding at the death of the survivor, proof of death of both coowners will be required. The presentation and surrender of a bond by one coowner for payment establishes his right to receive the proceeds of the bond, and if he should die before the transaction is completed, payment will be made to the legal representative of, or persons entitled to, his estate in accordance with the provisions of Subpart O. If either coowner dies after the bond has been presented and surrendered for authorized reissue (see § 315.47), the bond will be regarded as though reissued during his lifetime.

§ 315.63 Upon death of both coowners in a common disaster, etc.

If both coowners die under such conditions that it cannot be established either by presumption of law or otherwise which died first, the bond will be considered as belonging to the estates of both equally, and payment or reissue will be made accordingly. (See Subpart O of this part.)

SUBPART N—TWO NATURAL PERSONS AS OWNER AND BENEFICIARY

§ 315.65 Payment during the lifetime of the registered owner.

A savings bond registered in beneficiary form, for example, "John A. Jones payable on death to Mrs. Mary C. Jones," will be paid to the registered owner during his lifetime upon his properly executed request as though no beneficiary had been named in the registration. The presentation and surrender of the bond by the registered owner for payment establishes his exclusive right to the proceeds of the bond, and if he should die before the transaction is completed, payment will be made to the legal representative of, or the persons entitled to, his estate upon receipt of proof of appointment and qualification of the representative or the identity of the persons entitled, in accordance with the provisions of Subpart O of this part.

§ 315.66 Reissue during the lifetime of the registered owner.

A savings bond registered in beneficiary form may be reissued upon its presentation and surrender during the lifetime of the registered owner, upon his request, as follows:

(a) To name the beneficiary designated on the bond as coowner. (Form PD 4000 may be used.)

(b) To eliminate his name as owner and to name as owner a custodian for the beneficiary, if a minor, under a statute authorizing gifts to minors. (Form PD 3360 may be used.)

(c) To eliminate the beneficiary, to substitute another natural person as beneficiary, or to name another natural person as coowner. The request of the owner must be supported by the duly certified consent of the beneficiary to elimination of his name, or by proof of his death. (Form PD 4000 may be used.)

(d) To eliminate his name as owner and to name as owner the trustee of (1) a personal trust estate created by the owner, or (2) a personal trust estate created by other than the owner if (i) the owner is a beneficiary of the trust, or (ii) a beneficiary of the trust and the owner are related as set forth in § 315.61 (a)(2). The request of the owner must be supported by the duly certified consent of the beneficiary, or by proof of his death. (Form PD 1851 may be used.)

(e) The provisions of this section do not apply to bonds on which the Treasurer of the United States is named as beneficiary.

§ 315.67 After the death of the registered owner.

If the registered owner dies without the bond having been presented and surrendered for payment or authorized reissue and is survived by the beneficiary, upon proof of death of the owner the beneficiary will be recognized as the sole and absolute owner, and payment or reissue will be made as though the bond were registered in his name alone. (See Subpart L of this part.)

SUBPART O—DECEASED OWNERS

§ 315.70 General.

Upon the death of the owner of a savings bond who is not survived by a coowner or designated beneficiary and who had not during his lifetime presented and surrendered the bond for payment or an authorized reissue, the bond will be considered as belonging to his estate and will be paid or reissued accordingly as hereinafter provided, except that reissue under this subpart will not be permitted if otherwise in conflict with these regulations. If the person entitled is an alien who is a resident of an area with respect to which the Department of the Treasury restricts or regulates the delivery of checks drawn against funds of the United States of America or any agency or instrumentality thereof, payment of, and interest on, a bond will not be made so long as the restriction applies.[3] A creditor is entitled only to payment of a bond to the extent of not more than his claim.

§ 315.71 Special provisions applicable to small amounts of savings bonds, interest checks or redemption checks.

Entitlement to, or the authority to dispose of, a small amount of bonds 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 face amount of bonds and checks involved (excluding checks representing interest on the bonds), 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 2488-1	Executor or administrator.
$500	Estate settled	PD 2458	Former executor or administrator, attorney or other qualified person.

§ 315.72 Estates administered.

(a) *In course of administration.*—If the estate of a decedent is being administered in court, the bond will be paid to the duly qualified representative of

[3] See Department Circular No. 655, current revision (31 CFR, Part 211).

the estate or will be reissued in the names of the persons entitled to share in the estate, upon the request of the representative and compliance with the following requirements:

(1) Where there are two or more legal representatives, all must join in the request for payment or reissue, except as provided in §§ 315.77 and 315.78.

(2) The request for payment or reissue should be signed in the form, for example, "John A. Jones, administrator of the estate (or executor of the will) of Henry W. Jones, deceased," and must be supported by proof of the representative's authority in the form of a court certificate or a certified copy of the representative's letters of appointment. The certificate or the certification to the letters must be under seal of the court and, except in the case of a corporate representative, must contain a statement that the appointment is in full force and should be dated within six months of the date of presentation of the bond, unless the certificate or letters show that the appointment was made within one year immediately prior to such presentation.

(3) In case of reissue the legal representative of the estate should certify that each person in whose name reissue is requested is entitled to the extent specified for each and has consented to such reissue. A request for reissue by the legal representative should be made on Form PD 1455. If a person in whose name reissue is requested desires to name a coowner or beneficiary, such person should execute an additional request for that purpose, using Form PD 4000.

(b) *After settlement through court proceedings.*—If the estate of the decedent has been settled in court, the bond will be paid to, or reissued in the name of, the person entitled thereto as determined by the court. The request for payment or reissue should be made by the person shown to be entitled, supported by a duly certified copy of the representative's final account as approved by the court, decree of distribution, or other pertinent court records, supplemented, if there are two or more persons having an apparent interest in the bond, by an agreement executed by them concerning the disposition of the bond. Form PD 4000 should be used by the person entitled if he wishes to name a coowner or beneficiary.

§ 315.73 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 request for payment or reissue of a bond to the person or persons entitled 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 will be appointed, the bond will be paid to, or reissued in the name of, the person or persons entitled, including those entitled as donees of a gift causa mortis, pursuant to an agreement and request by all persons entitled to share in the decedent's personal estate. A form of agreement for settlement without administration, Form PD 1946–1, should be used for cases in which the total face amount of bonds and redemption and interest checks belonging to the decedent's estate is in excess of $500. If the total face amount does not exceed $500, Form PD 1946 may be used. Should the persons entitled to share in the personal estate include minors or incompetents, payment or reissue of the bonds will not be permitted without administration except to them or in their names, unless their interests are otherwise protected.

SUBPART P—FIDUCIARIES

§ 215.75 Payment.

A savings bond registered in the name of a fiduciary or otherwise belonging to a fiduciary estate will be paid to the fiduciary or fiduciaries in accordance with the provisions of Secs. 315.77 and 315.78.

§ 315.76 Reissue.

(a) *In the name of person entitled*—(1) *Distribution of trust estate in kind.*—A bond to which a beneficiary of a trust estate has become lawfully entitled in his own right or in a fiduciary capacity, in whole or in part, under the terms of a trust instrument, will be reissued in his name to the extent of his interest, upon the trustee's request and its certification that such person is entitled and has agreed to reissue in his name.

(2) *After termination of trust estate.*—If the person who would be lawfully entitled to a bond upon the termination of a trust does not desire to have distribution made to him in kind, as provided in paragraph (a)(1) of this section, the trustee should present the bond for payment before the estate is terminated. If, however, the estate is terminated without payment or reissue having been made, the bond will thereafter be paid to or reissued in the name of the person lawfully entitled upon his request and satisfactory proof of ownership, supplemented, if there are two or more persons having any apparent interest in the bond, by an agreement executed by all such persons concerning the disposition of the bond.

(3) *Upon termination of guardianship estate.*—If the estate of a minor or incompetent or of an absentee is terminated during the ward's lifetime, a bond registered to show that there is a representative of the estate will be reissued in the name of the former ward upon the representative's request and certification that the former ward is entitled and has agreed to reissue in his name (Form PD 1455 should be used), or will be paid to or reissued in the name of the former ward upon his own request, supported in either case by satisfactory evidence that his disability has been removed or that an absentee has returned to claim his property. Certification by the representative that a former minor has attained his majority, that a former incompetent has been legally restored to competency, that a legal disability of a female ward has been removed by marriage, if the state law so provides, or that an absentee has appeared to claim his property, will ordinarily be accepted as sufficient (see § 315.77 if the representative's name is not shown in the registration). Upon the termination of the estate as the result of the death of the ward, a bond registered to show that there is a representative of his estate will be reissued in accordance with the provisions of Subpart O of this part.

(4) *Upon termination of life estate.*—Upon the death of a life tenant, a bond registered in his name as life tenant may be reissued in the name of the person or persons entitled pursuant to an agreement and request of all of the persons having an interest in the remainder.

(b) *In the name of a succeeding fiduciary.*—If a fiduciary in whose name a bond is registered has been succeeded by another, the bond will be reissued in the name of the succeeding fiduciary upon appropriate request and satisfactory evidence of successorship. Form PD 1455 should be used.

(c) *In the name of financial institution as trustee of common trust fund.*—A bond held by a bank, trust company, or other financial institution as a trustee, guardian or similar representative, executor or administrator may be reissued in its name as trustee of its common trust fund to the extent that participation therein by the institution in such capacity is authorized by law or applicable regulations. A request for reissue to the institution as trustee of its common trust fund should be executed on its behalf in the capacity in which the bond is held and by the cofiduciary, if any. Form PD 1455 should be used.

§ 315.77 Requests for reissue or payment prior to maturity or extended maturity.

The following rules apply to both requests for reissue and payment by fiduciaries: A request for reissue or payment prior to maturity, or final extended maturity, as appropriate, must be signed by all acting fiduciaries unless by express statute, decree of court, or the terms of the instrument under which the fiduciaries are acting, one or more of them may properly execute the request. If the fiduciaries named in the registration are still acting, no further evidence of authority will be required. Otherwise, a request must be supported by evidence as specified below:

(a) *Fiduciaries by title only.*—If the bond is registered in the titles, without the names, of fiduciaries not acting as a board, satisfactory evidence of their incumbency must be furnished, except in the case of bonds registered in the title of public officers as trustees.

(b) *Succeeding fiduciaries.*—If the fiduciaries in whose names the bond is registered have been succeeded by other fiduciaries, satisfactory evidence of successorship must be furnished.

(c) *Boards, committees, etc.*—A savings bond registered in the name of a board, committee, commission, or other body, empowered to act as a unit and to hold title to the property of a religious, educational, charitable, or nonprofit organization or public corporation will be paid upon a request for payment signed in the name of the board or other body by an authorized officer or employee thereof. A request so signed and duly certified will ordinarily be accepted without further evidence of the signer's authority. The check in payment of the bond will be drawn in the name of the board or other body as fiduciary for the organization named in the registration or shown by satisfactory evidence to be entitled as successor thereto.

(d) *Corporate fiduciaries.*—If a public or private corporation or a political body, such as a state or county, is acting as a fiduciary, a request must be signed in the name of the corporation or other body, in the fiduciary capacity in which it is acting, by an authorized officer thereof. A request so signed and duly certified will ordinarily be accepted without further evidence of the officer's authority.

(e) *Registration not disclosing trust or other fiduciary estate.*—If the registration of the bond does not show that it belongs to a trust or other fiduciary estate or does not identify the estate to which it belongs, satisfactory evidence of ownership must be furnished in addition to any other evidence required by this section.

§ 315.78 Requests for payment at or after maturity.

A request, signed by any one or more acting fiduciaries, for payment at or after the maturity date, or an extended maturity date for bonds having extended maturity periods, will be accepted. Payment ordinarily will be made by check drawn as the bond is inscribed.

SUBPART Q—PRIVATE ORGANIZATIONS (CORPORATIONS, ASSOCIATIONS, PARTNERSHIPS, ETC.) AND GOVERNMENTAL AGENCIES, UNITS AND OFFICERS

§ 315.80 Payment to corporations or unincorporated associations.

A savings bond registered in the name of a private corporation or an unincorporated association will be paid to the corporation or unincorporated association upon a request for payment on its behalf by a duly authorized officer thereof. The signature to the request should be in the form, for example, "The Jones Coal Company, a corporation, by John Jones, President," or "The Lotus Club, an unincorporated association, by William A. Smith, Treasurer." A request for payment so signed and duly certified will ordinarily be accepted without further evidence of the officer's authority.

§ 315.81 Payment to partnerships.

A savings bond registered in the name of an existing partnership will be paid upon a request for payment signed by a general partner. The signature to the request should be in the form, for example, "Smith and Jones, a partnership, by John Jones, a general partner." A request for payment so signed and duly certified will ordinarily be accepted as sufficient evidence that the partnership is still in existence and that the person signing the request is duly authorized.

§ 315.82 Reissue or payment to successors of corporations, unincorporated associations, or partnerships.

A savings bond registered in the name of a private corporation, an unincorporated association, or a partnership which has been succeeded by another corporation, unincorporated association, or partnership by operation of law or otherwise, as the result of merger, consolidation, incorporation, reincorporation, conversion, or reorganization, or which has been lawfully succeeded in any manner whereby the business or activities of the original organization are continued without substantial change, will be paid to or reissued in the name of the succeeding organization upon appropriate request on its behalf, supported by satisfactory evidence of successorship. Form PD 1540 should be used.

§ 315.83 Reissue or payment on dissolution of corporation or partnership.

(a) *Corporations.*—A savings bond registered in the name of a private corporation which is in the process of dissolution will be paid to the authorized representative of the corporation upon a duly executed request for payment, supported by satisfactory evidence of the representative's authority. Upon the termination of dissolution proceedings, the bond may be reissued in the names of those persons, other than creditors, entitled to the assets of the corporation, to the extent of their respective interests. Reissue under this subsection will be made upon the duly executed request of the authorized representative of the corporation and upon proof that all statutory provisions governing the dissolution of the corporation have been complied with and that the persons in whose names reissue is requested are entitled and have agreed to the reissue. If the dissolution proceedings are under the direction of a court, a certified copy of an order of the court, showing the authority of the representative to make the distribution requested must be furnished.

(b) *Partnerships.*—A savings bond registered in the name of a partnership which has been dissolved by death or withdrawal of a partner, or in any other manner, will be paid upon a request for payment by any partner or partners authorized by law to act on behalf of the dissolved partnership, or will be paid to or reissued in the names of the persons entitled as the result of such dissolution to the extent of their respective interests, except that reissue will not be made in the names of creditors. The request must be supported by satisfactory evidence of entitlement, including proof that the debts of the partnership have been paid or properly provided for. Form PD 2514 should be used.

§ 315.84 Payment to institutions (churches, hospitals, homes, schools, etc.).

A savings bond registered in the name of a church, hospital, home, school, or similar institution without reference in the registration to the manner in which it is organized or governed or to the manner in which title to its property is held will be paid upon a request for payment signed on behalf of such institution by an authorized representative. For the purpose of this section, a request for payment signed by a pastor of a church, superintendent of a hospital, president of a college, or by any official generally recognized as having authority to conduct the financial affairs of the particular institution will ordinarily be accepted without further proof of his authority. The signature to the request should be in the form, for example, "Shriners' Hospital for Crippled Children, St. Louis, Missouri, by William A. Smith, superintendent," or "St. Mary's Roman Catholic Church, Albany, New York, by Rev. John Jones, pastor."

§ 315.85 Reissue in name of trustee or agent for reinvestment purposes.

A savings bond registered in the name of a religious, educational, charitable or nonprofit organization, whether or not incorporated, may be reissued in the name of a bank, trust company or other financial institution, or an individual, as trustee or agent under an agreement with the organization under which the trustee or agent holds funds of the organization, in whole or in part, for the purpose of investing and reinvesting the principal and paying the income to the organization. Form PD 2177 should be used and should be signed on behalf of the organization by an authorized officer.

§ 315.86 Reissue upon termination of investment agency.

A savings bond registered in the name of a bank, trust company, or other financial institution, or individual, as agent for investment purposes only, under an agreement with religious, educational, charitable, or nonprofit organization, may be reissued in the name of the organization upon termination of the agency. The former agent should request such reissue and should certify that the organization is entitled by reason of the termination of the agency, using Form PD 1455. If such request and certification are not obtainable, the bond will be reissued in the name of the organization upon its own request, supported by satisfactory evidence of the termination of the agency.

§ 315.87 Payment to governmental agencies and units.

A savings bond registered in the name of a state, county, city, town, or village, or in the name of a Federal, State, or local governmental agency, such as a board, commission, or corporation, will be paid upon a request signed in the name of the governmental agency or unit by a duly authorized officer thereof. A request for payment so signed and duly certified will ordinarily be accepted without further proof of the officer's authority.

§ 315.88 Payment to government officers.

A savings bond registered in the official title of an officer of a governmental agency or unit will be paid upon a request for payment signed by the designated officer. The fact that the request for payment is so signed and duly certified will ordinarily be accepted as proof that the person signing is the incumbent of the designated office.

SUBPART R—MISCELLANEOUS PROVISIONS

§ 315.90 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 of America or in order to relieve any person or persons of unnecessary hardship, if such action would not be inconsistent with law and would not impair any existing rights, and if he is satisfied that such action would not subject the United States of America to any substantial expense or liability.

§ 315.91 Additional requirements; bond of indemnity; social security numbers.

The Secretary of the Treasury may require (a) such additional evidence as he may consider necessary or advisable, (b) a bond of indemnity, with or without surety, in any case in which he may consider such a bond necessary for the protection of the interests of the United States of America, and (c) that appropriate social security numbers be furnished for reissue or payment of any savings bond.

§ 315.92 Preservation of rights.

Nothing contained in these regulations shall be construed to limit or restrict existing rights which holders of savings bonds heretofore issued may have acquired under the circulars offering the bonds for sale or under the regulations in force at the time of purchase.

§ 315.93 Supplements, amendments, or revisions.

The Secretary of the Treasury may at any time, or from time to time, prescribe additional, supplemental, amendatory, or revised rules and regulations governing United States Savings Bonds.

DAVID MOSSO,
Deputy Fiscal Assistant Secretary.

Exhibit 5.—Department Circular No. 530, September 5, 1973, Tenth Revision, Amendment No. 1, regulations governing United States savings bonds

DEPARTMENT OF THE TREASURY,
Washington, February 6, 1974.

Sections 315.10, 315.30 and 315.32(a) of Department of the Treasury Circular No. 530, Tenth Revision, dated September 5, 1973 (31 CFR Part 315), are hereby revised and amended, effective as of January 1, 1974, to read:

§ 315.10 Amounts which may be held.

The amounts of savings bonds of Series E and H, issued in any one calendar year, which may be held by any one person at any one time, computed in accordance with the provisions of § 315.11, are limited as follows:

(a) *Series E*—(1) *General annual limitations.*

Issue dates	*Limit*
May 1941 through December 1947	$5,000 (face amount)
January 1948 through December 1951	10,000 (face amount)
January 1952 through April 1957	20,000 (face amount)
May 1957 through December 1965	10,000 (face amount)
(A person holding $10,000 (face amount) or more purchased between Jan. 1, 1957, and Apr. 30, 1957, was not entitled to additional holdings during the remainder of 1957.)	
January 1966 through November 1969	20,000 (face amount)
December 1969 through December 1973	5,000 (issue price)
(A person holding $5,000 (issue price) or more purchased between Jan. 1, 1969, and Nov. 30, 1969, was not entitled to additional holdings during the remainder of 1969. $5,000 (issue price) would purchase $6,650 (face amount).)	
January 1974 and thereafter	10,000 (face amount)

(2) *Special limitation.*—Trustees of an employees' saving plan (as defined in Department of the Treasury Circular No. 653, current revision, 31 CFR Part 316) and trustees of an eligible savings and vacation plan may purchase $2,000 (face amount) multiplied by the highest number of employees participating in the plan at any time during the calendar year in which the bonds are issued.

(b) *Series H*—(1) *General annual limitations.*

Issue dates	*Limit*
June 1952 through April 1957	$20,000 (face amount)
May 1957 through December 1961	10,000 (face amount)
(A person holding $10,000 (face amount) or more purchased between Jan. 1, 1957, and Apr. 30, 1957, was not entitled to additional holdings during the remainder of 1957.)	
January 1962 through December 1965	20,000 (face amount)
January 1966 through November 1969	30,000 (face amount)
December 1969 through December 1973	5,000 (face amount)
(A person holding $5,000 (face amount) or more purchased between Jan. 1, 1969, and Nov. 30, 1969, was not entitled to additional holdings during the remainder of 1969.)	
January 1974 and thereafter	10,000 (face amount)

(2) *Special limitation.*—$200,000 (face amount) for the calendar year 1966 and each calendar year thereafter for bonds received as gifts by an organization which at the time of purchase was an exempt organization under the terms of 26 CFR 1.501(c)(3)-1.

§ 315.30 General.

The only savings bonds currently on sale are Series E and Series H bonds. Series E bonds are appreciation bonds issued at a discount and redeemable before or at final maturity at increasing redemption values. Series H bonds are current-income bonds, issued at par (face amount) and paying interest semiannually to extended maturity. Series H bonds are redeemable at par at any time after six months from issue date. Savings notes, the sale of which terminated at the close of business on June 30, 1970, have also been extended for ten years.[1]

§ 315.32 Series H bonds.

(a) *Interest.* Interest on a Series H bond is paid semiannually by check, beginning six months from issue date. Interest will cease at the end of the extended maturity period, or if redeemed before the extended maturity date, at the end of the interest period next preceding the date of redemption. However, if the date of redemption falls on an interest payment date, interest will cease on that date. For example, if a bond on which interest is payable on January 1 and July 1 is redeemed on September 1, interest will cease on the preceding July 1, and no adjustment of interest will be made for the period from July 1 to September 1. The same rules apply in case of partial redemption with respect to the amount redeemed.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 6.—Department Circular No. 653, December 1, 1973, Ninth Revision, offering of United States savings bonds, Series E

DEPARTMENT OF THE TREASURY,
Washington, March 18, 1974.

Department of the Treasury Circular No. 653, Eighth Revision, dated December 12, 1969, as amended and supplemented, including the tables incorporated therein (31 CFR Part 316), is hereby revised and amended and issued as Department of the Treasury Circular No. 653, Ninth Revision, effective as of December 1, 1973.

AUTHORITY: Sec. 22, Second Liberty Bond Act, as amended, 49 Stat. 21 as amended (31 U.S.C. 757c); (5 U.S.C. 301).

§ 316.1 Offering of bonds.

The Secretary of the Treasury hereby offers for sale to the people of the United States, United States Savings Bonds of Series E, hereinafter generally referred to as "Series E bonds" or "bonds." This offer, effective as of December 1, 1973, will continue until terminated by the Secretary of the Treasury.

[1] See Appendices to current revisions of Department of the Treasury Circulars Nos. 653 and 905 (31 CFR Parts 316 and 332) concerning extensions and investment yields for Series E and H bonds, respectively. See Department of the Treasury Circular, Public Debt Series No. 3-67, Revised, as amended (31 CFR Part 342), concerning extension and investment yields for savings notes (Freedom Shares).

§ 316.2 Description of bonds.

(a) *General.* Series E bonds bear a facsimile of the signature of the Secretary of the Treasury and of the Seal of the Department of the Treasury. They are issued only in registered form and are nontransferable.

(b) *Denominations and prices.* Series E bonds are issued on a discount basis. The denominations and purchase prices are:

Denominations	*Purchase price*
$25	$18.75
$50	37.50
$75	56.25
$100	75.00
$200	150.00
$500	375.00
$1,000	750.00
$10,000	7,500.00
$100,000 [1]	75,000.00

[1] The $100,000 denomination is available only for purchase by trustees of employees' savings and savings and vacation plans (see § 316.5(b)).

(c) *Inscription and issue.* At the time of issue the issuing agent will (1) inscribe on the face of each bond the name, social security number and address of the owner, and the name of the beneficiary,[2] if any, or the name, social security number and address of the first-named coowner and the name of the other coowner,[2] (2) enter in the upper right-hand portion of the bond the issue date, and (3) imprint the agent's dating stamp in the lower right-hand portion to show the date the bond is actually inscribed. A bond shall be valid only if an authorized issuing agent receives payment therefor and duly inscribes, dates and stamps it.

(d) *Term.* A Series E bond shall be dated as of the first day of the month in which payment of the purchase price is received by an agent authorized to issue the bonds. This date is the issue date and the bond will mature and be payable at the maturity value, shown in Table 1 hereof, 5 years from the issue date. The bond may not be called for redemption by the Secretary of the Treasury prior to maturity or the end of any extended maturity period (see § 316 (a)(1)). The bond may be redeemed at the owner's option at any time after 2 months from issue date at fixed redemption values. However, the Department of the Treasury may require reasonable notice of presentation for redemption prior to the maturity date or any extended maturity date.

(e) *Investment yield (interest).* The investment yield (interest) on a Series E bond will be approximately 6 percent per annum, compounded semiannually, if the bond is held to maturity, but the yield will be less if the bond is redeemed prior thereto. The interest will be paid as a part of the redemption value. For the first 6 months from issue date, the bond will be redeemable only at purchase price. Thereafter, its redemption value will increase at the beginning of each successive half-year period. See Table 1.

§ 316.3 Governing regulations.

Series E bonds are subject to the regulations of the Department of the Treasury, now or hereafter prescribed, governing United States Savings Bonds, contained in Department of the Treasury Circular No. 530, current revision (Part 315 of this chapter).[3]

§ 316.4 Registration.

(a) *General.* Generally, only residents of the United States, its territories and possessions, the Commonwealth of Puerto Rico, the Canal Zone, and citizens of the United States temporarily residing abroad are eligible to be named as owners of Series E bonds. The bonds may be registered in the names of natural persons in their own right as provided in paragraph (b) of this section, and in

[2] The title of a female registrant designated as beneficiary or second-named coowner need not be furnished if her social security number is provided. If so requested, both title and number may be inscribed. If the bond is being purchased as a gift or award and the owner's social security number *is not known*, the purchaser's social security number or employer identification number must be furnished. In this event, the issuing agent will inscribe the word "GIFT" and the purchaser's number on the bond.

[3] Copies may be obtained from any Federal Reserve Bank or Branch, or the Bureau of the Public Debt, Washington, D.C. 20226, or its Chicago Office, 536 South Clark Street, Chicago, Illinois 60605.

the names and titles or capacities of fiduciaries and organizations as provided in paragraph (c) of this section. Full information regarding authorized forms of registration and restrictions with respect thereto will be found in the governing regulations.

(b) *Natural persons in their own right.* The bonds may be registered in the names of natural persons (whether adults or minors) in their own right, in single ownership, coownership, and beneficiary forms.

(c) *Others.* The bonds may be registered in single ownership form in the names of fiduciaries and private and public organizations, as follows:

(1) *Fiduciaries.* In the names of and showing the titles or capacities of any persons or organizations, public or private, as fiduciaries (including trustees, legal guardians or similar representatives, and certain custodians), but not where the fiduciary would hold the bonds merely or principally as security for the performance of a duty, obligation or service.

(2) *Private and public organizations.* In the names of private or public organizations (including private corporations, partnerships, and unincorporated associations, and States, counties, public corporations, and other public bodies) in their own right, but not in the names of commercial banks.[4]

§ 316.5 Limitation on holdings.

The amount of Series E bonds originally issued during any 1 calendar year that may be held by any one person, at any one time, computed in accordance with the governing regulations, is limited as follows:

(a) *General limitation.* $10,000 (face amount) for the calendar year 1974 and each calendar year thereafter.

(b) *Special limitation for employees' savings plans.* $2,000 (face amount) multiplied by the highest number of participants in any employees' savings plan, as defined in paragraph (b) (1) of this section, at any time during the year in which the bonds are issued.[5]

(1) *Definition of plan and conditions of eligibility.* (i) The employees' savings plan must have been established by the employer for the exclusive and irrevocable benefit of his employees or their beneficiaries, afford employees the means of making regular savings from their wages through payroll deductions, and provide for employer contributions to be added to such savings.

(ii) The entire assets thereof must be credited to the individual accounts of participating employees and the assets so credited may be distributed only to them or their beneficiaries, except as otherwise provided herein.

(iii) Series E bonds may be purchased only with assets credited to the accounts of participating employees and only if the amount taken from any account at any time for that purpose is equal to the purchase price of a bond or bonds in an authorized denomination or denominations, and shares therein are credited to the accounts of the individuals from which the purchase price thereof was derived, in amounts corresponding with their shares. For example, if $37.50 credited to the account of John Jones is commingled with funds credited to the accounts of other employees to make a total of $7,500, with which a Series E bond in the denomination of $10,000 (face amount) is purchased in December 1973 and registered in the name and title of the trustee, the plan must provide, in effect, that John Jones' account shall be credited to show that he is the owner of a Series E bond in the denomination of $50 (face amount) bearing issue date of December 1, 1973.

(iv) Each participating employee shall have an irrevocable right at any time to demand and receive from the trustee all assets credited to his account or the value thereof, if he so prefers, without regard to any condition other than the loss or suspension of the privilege of participating further in the plan. However, a plan will not be deemed to be inconsistent herewith if it limits or modifies the exercise of any such right by providing that the employer's contribution does not vest absolutely until the employee shall have made contributions under the plan in each of not more than 60 calendar months succeeding the month for which the employer's contribution is made.

(v) Upon the death of an employee, his beneficiary shall have the absolute

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[4] For this purpose, commercial banks (as defined in § 315.7, Department of the Treasury Circular No. 530, current revision) are those accepting demand deposits.

[5] Savings and vacation plans may be eligible for this special limitation. Questions concerning eligibility of such plans should be addressed to the Chicago Office of the Bureau of Public Debt.

and unconditional right to demand and receive from the trustee all assets credited to the account of the employee, or the value thereof, if he so prefers.

(vi) When settlement is made with an employee or his beneficiary with respect to any bond registered in the name and title of the trustee in which the employee has a share (see paragraph (b) (i) (ii) and (iii) of this section), the bond must be submitted for redemption or reissue to the extent of such share. If an employee or his beneficiary is to receive distribution in kind, bonds bearing the same issue dates as those credited to the employee's account will be reissued in the name of the distributee to the extent to which he is entitled, in authorized denominations, in any authorized form of registration, upon the request and certification of the trustee in accordance with the governing regulations.

(2) *Definition of terms used in this subsection—related provisions.* (i) The term "savings plan" includes any regulations issued under the plan with regard to Series E bonds. A trustee desiring to purchase bonds in excess of the general limitation in any calendar year should submit to the Federal Reserve Bank of the district, a copy of (*a*) the plan, (*b*) any such regulations, and (*c*) the trust agreement, all certified to be true copies, in order to establish its eligibility.

(ii) The term "assets" means all funds, including the employees' contributions and employer's contributions and assets purchased therewith as well as accretions thereto, such as dividends on stock, the increment in value on bonds and all other income; but, notwithstanding any other provision of this subsection, the right to demand and receive "all assets" credited to the account of an employee shall not be construed to require the distribution of assets in kind when it would not be possible or practicable to make such distribution; for example, Series E bonds may not be reissued in unauthorized denominations, and fractional shares of stock are not readily distributable in kind.

(iii) The term "beneficiary" means the person or persons, if any, designated by the employee in accordance with the terms of the plan to receive the benefits of the trust upon his death or the estate of the employee, and the term "distributee" means the employee or his beneficiary.

§ 316.6 Purchase of bonds.

Series E bonds may be purchased, as follows:

(a) *Over-the-counter for cash*—(1) *Bonds registered in names of natural persons in their own right only.* At such incorporated banks, trust companies, and other agencies as have been duly qualified as issuing agents and at selected United States post offices.

(2) *Bonds registered in names of trustees of employees' savings plans.* At such incorporated bank, trust company, or other agency, duly qualified as an issuing agent, provided the agent is trustee of an approved employees' savings plan eligible for the special limitation in § 316.5(b) and prior approval to issue the bonds is obtained from the Federal Reserve Bank of the agent's district.

(3) *Bonds registered in all authorized forms.* At Federal Reserve Banks and Branches and at the Department of the Treasury, Washington, D.C. 20226.

(b) *On mail order.* By mail upon application to any Federal Reserve Bank or Branch or to the Department of the Treasury, accompanied by a remittance to cover the issue price. Any form of exchange, including personal checks, will be accepted subject to collection. Checks or other forms of exchange should be drawn to the order of the Federal Reserve Bank or the United States Treasury, as the case may be. Checks payable by endorsement are not acceptable. Any depositary qualified pursuant to the provisions of Department of the Treasury Circular No. 92, current revision (Part 203 of this chapter), will be permitted to make payment by credit for bonds applied for on behalf of its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

(c) *Savings stamps.* The sale of United States Savings Stamps was terminated effective June 30, 1970. However, outstanding stamps affixed in fully or partially completed albums may be used to purchase Series E bonds at banks or other financial institutions authorized to issue such bonds. Otherwise, the stamps may be redeemed for cash at post offices.

§ 316.7 Delivery of bonds.

Issuing agents are authorized to deliver Series E bonds either over-the-counter in person, or by mail at the risk and expense of the United States, to the address given by the purchaser, but only within the United States, its territories and possessions, the Commonwealth of Puerto Rico, and the Canal Zone. No mail deliveries elsewhere will be made. If purchased by citizens of the United States temporarily residing abroad, the bonds will be delivered at such address in the United States as the purchaser directs.

§ 316.8 Extended terms and improved yields for outstanding bonds.

(a) *Extended maturity periods*—(1) *General*. The terms "extended maturity period," "second extended maturity period," and "third extended maturity period," when used herein, refer to the intervals after the original maturity dates during which owners may retain their bonds and continue to earn interest on the maturity values or the extended maturity values.[6] No special action is required of owners desiring to take advantage of any extensions heretofore or herein granted.[7]

(2) *Bonds with issue dates May 1, 1941, through April 1, 1952*. Owners of Series E bonds with issue dates of May 1, 1941, through April 1, 1952, may retain their bonds for a third and final extended maturity period of 10 years.

(3) *Bonds with issue dates May 1, 1952, through January 1, 1957*. Owners of Series E bonds with issue dates of May 1, 1952, through January 1, 1957, may retain their bonds for a second extended maturity period of 10 years.

(4) *Bonds with issue dates of February 1, 1957, or thereafter*. Owners of Series E bonds with issue dates of February 1, 1957, or thereafter, may retain their bonds for an extended maturity period of 10 years.

(b) *Improved yields*[8].—(1) *Outstanding bonds*. The investment yield on all outstanding Series E bonds is hereby increased as follows:

(i) *Bonds in original maturity period on December 1, 1973*. By approximately ½ of 1 percent per annum, compounded semiannually, for the remaining period to the maturity date. The increase will begin with the first interest accrual period starting on or after December 1, 1973.

(ii) *Bonds in extended maturity periods on December 1, 1973*. By approximately ½ of 1 percent per annum, compounded semiannually, for the remaining period to the next maturity date. The increase will begin with the first interest accrual period starting on or after December 1, 1973.

(iii) *Bonds entering extended maturity periods on December 1, 1973, and January 1, 1974*. To approximately 6 percent per annum, compounded semiannually, for the extended maturity period.

(2) *Authorized extensions*. The investment yield for any authorized extension period, other than as set forth in paragraph (b)(1) of this section, will be at the interest rate in effect for Series E bonds being issued on the maturity date or next extended maturity date, as the case may be. The tables of redemption value and investment yields published herein will not apply if at the time an extension begins such rate is different from 6 percent.

§ 316.9 Taxation.

(a) *General*. For the purpose of determining taxes and tax exemptions, the increment in value represented by the difference between the price paid for Series E bonds and the redemption value received therefor shall be considered as interest. Such interest 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.

(b) *Federal income tax on bonds*. An owner of Series E bonds who is a cash basis taxpayer may use either of two methods of reporting the increase in the redemption value of the bonds for Federal income tax purposes as follows:

(1) Defer reporting the increase to the year of final maturity, actual redemption, or other disposition, whichever is earlier; or

(2) Elect to report the increases each year as they accrue, in which case the election will apply to all Series E bonds then owned by him and to those thereafter acquired, as well as to any other similar obligation sold on a discount basis.

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[6] The redemption value of any bond at the maturity date, the extended maturity date or the second extended maturity date is the base, in each instance, upon which interest will accrue during the period following.

[7] The tables incorporated herein, arranged according to issue dates, show current redemption values and investment yields.

[8] See Appendix for summary of investment yields to maturity, extended maturity and second extended maturity dates under regulations heretofore and herein prescribed.

If the method in paragraph (b)(1) of this section is used, the taxpayer may change to the method in paragraph (b)(2) of this section without obtaining permission from the Internal Revenue Service. However, once the election to use the method in paragraph (b)(2) of this section is made, the taxpayer may not change the method of reporting unless he obtains permission to do so from the Internal Revenue Service. For further information on Federal taxes consult the Service Center Director, or District Director, of the taxpayer's district, or the Internal Revenue Service, Washington, D.C. 20224.

§ 316.10 Payment or redemption.

(a) *General.* A Series E bond may be redeemed in accordance with its terms at the appropriate redemption value shown in the applicable table hereof. The redemption values of bonds in the denomination of $100,000 [1] are not shown in the tables. However, the redemption value of a bond in that denomination will be equal to the total redemption values of ten $10,000 bonds bearing the same issue dates. A bond in a denomination higher than $25 (face amount) may be redeemed in part but only in the amount of an authorized denomination or multiple thereof.

(b) *Federal Reserve Banks and Branches and Treasurer of the United States.* Owners of Series E bonds may obtain payment upon presentation and surrender of the bonds to a Federal Reserve Bank or Branch or to the Department of the Treasury with the requests for payment on the bonds duly executed and certified in accordance with the governing regulations.

(c) *Incorporated banks, trust companies and other financial institutions.* An individual (natural person) whose name is inscribed on a Series E bond either as owner or coowner in his own right may present such bond to any incorporated bank or trust company or other financial institution which is qualified as a paying agent under Department of the Treasury Circular No. 750, current revision (Part 312 of this chapter). If such bond is in order for payment by the paying agent, the owner or coowner, upon establishing his identity to the satisfaction of the agent and upon signing the request for payment and adding his home or business address, may receive payment of its current redemption value.

§ 316.11 Reservation as to issue of bonds.

The Secretary of the Treasury reserves the right to reject any application for Series E bonds, in whole or in part, and to refuse to issue or permit to be issued hereunder any such bonds in any case or any class or classes of cases if he deems such action to be in the public interest, and his action in any such respect shall be final.

§ 316.12 Preservation of rights.

Nothing contained herein shall limit or restrict rights which owners of Series E bonds heretofore issued have acquired under offers previously in force.

§ 316.13 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 issue, delivery, redemption, and payment of Series E bonds.

§ 316.14 Reservations as to terms of offer.

The Secretary of the Treasury may at any time or from time to time supplement or amend the terms of this offering of bonds, or of any amendments or supplements thereto.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 1

BONDS BEARING ISSUE DATES BEGINNING DECEMBER 1, 1973

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on first day of period)								(2) From issue date to beginning of each ½-yr. period	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to maturity
									Percent	Percent	Percent
0-0 to 0-6	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	----	3.73	6.00
0-6 to 1-0	19.10	38.20	57.30	76.40	152.80	382.00	764.00	7640	3.73	5.34	6.25
1-0 to 1-6	19.61	39.22	58.83	78.44	156.88	392.20	784.40	7844	4.54	5.00	6.37
1-6 to 2-0	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8040	4.69	4.98	6.57
2-0 to 2-6	20.60	41.20	61.80	82.40	164.80	412.00	824.00	8240	4.76	5.24	6.83
2-6 to 3-0	21.14	42.28	63.42	84.56	169.12	422.80	845.60	8456	4.86	5.39	7.15
3-0 to 3-6	21.71	43.42	65.13	86.84	173.68	434.20	868.40	8684	4.95	5.53	7.59
3-6 to 4-0	22.31	44.62	66.93	89.24	178.48	446.20	892.40	8924	5.03	5.92	8.29
4-0 to 4-6	22.97	45.94	68.91	91.88	183.76	459.40	918.80	9188	5.14	6.09	9.48
4-6 to 5-0	23.67	47.34	71.01	94.68	189.36	473.40	946.80	9468	5.25	12.93	12.93
5-0 1/	25.20	50.40	75.60	100.80	201.60	504.00	1008.00	10080	6.00	----	----

1/ Maturity value reached at 5 years and 0 months after issue.

TABLE 2

BONDS BEARING ISSUE DATE MAY 1, 1941

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — THIRD EXTENDED MATURITY PERIOD					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
3-0 to 3-6 . . . 1/(5/1/74)	$59.17	$118.34	$236.68	$1183.40	$2366.80	5.50	6.02	6.00
3-6 to 4-0 . . . . (11/1/74)	60.95	121.90	243.80	1219.00	2438.00	5.57	5.97	6.00
4-0 to 4-6 . . . . (5/1/75)	62.77	125.54	251.08	1255.40	2510.80	5.62	5.99	6.00
4-6 to 5-0 . . . . (11/1/75)	64.65	129.30	258.60	1293.00	2586.00	5.66	6.00	6.00
5-0 to 5-6 . . . . (5/1/76)	66.59	133.18	266.36	1331.80	2663.60	5.70	6.01	6.00
5-6 to 6-0 . . . . (11/1/76)	68.59	137.18	274.36	1371.80	2743.60	5.73	6.01	6.00
6-0 to 6-6 . . . . (5/1/77)	70.65	141.30	282.60	1413.00	2826.00	5.75	6.00	6.00
6-6 to 7-0 . . . . (11/1/77)	72.77	145.54	291.08	1455.40	2910.80	5.77	5.99	6.00
7-0 to 7-6 . . . . (5/1/78)	74.95	149.90	299.80	1499.00	2998.00	5.79	6.00	6.00
7-6 to 8-0 . . . . (11/1/78)	77.20	154.40	308.80	1544.00	3088.00	5.80	6.01	6.00
8-0 to 8-6 . . . . (5/1/79)	79.52	159.04	318.08	1590.40	3180.80	5.81	5.99	5.99
8-6 to 9-0 . . . . (11/1/79)	81.90	163.80	327.60	1638.00	3276.00	5.82	5.98	6.00
9-0 to 9-6 . . . . (5/1/80)	84.35	168.70	337.40	1687.00	3374.00	5.83	6.02	6.00
9-6 to 10-0 . . . . (11/1/80)	86.89	173.78	347.56	1737.80	3475.60	5.84	5.98	5.98
10-0 2/ . . . . . (5/1/81)	89.49	178.98	357.96	1789.80	3579.60	5.85 3/	----	----

1/ Month, day, and year on which issues of May 1, 1941, enter each period.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 3.95 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 3

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1941

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* THIRD EXTENDED MATURITY PERIOD					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
2-6 to 3-0 . . . 1/(12/1/73)	$58.18	$116.36	$232.72	$1163.60	$2327.20	5.50	6.02	6.00
3-0 to 3-6 . . . . (6/1/74)	59.93	119.86	239.72	1198.60	2397.20	5.59	5.97	6.00
3-6 to 4-0 . . . . (12/1/74)	61.72	123.44	246.88	1234.40	2468.80	5.64	5.99	6.00
4-0 to 4-6 . . . . (6/1/75)	63.57	127.14	254.28	1271.40	2542.80	5.69	6.01	6.00
4-6 to 5-0 . . . . (12/1/75)	65.48	130.96	261.92	1309.60	2619.20	5.72	5.99	6.00
5-0 to 5-6 . . . . (6/1/76)	67.44	134.88	269.76	1348.80	2697.60	5.75	6.02	6.00
5-6 to 6-0 . . . . (12/1/76)	69.47	138.94	277.88	1389.40	2778.80	5.77	6.02	6.00
6-0 to 6-6 . . . . (6/1/77)	71.56	143.12	286.24	1431.20	2862.40	5.79	5.98	6.00
6-6 to 7-0 . . . . (12/1/77)	73.70	147.40	294.80	1474.00	2948.00	5.81	6.00	6.00
7-0 to 7-6 . . . . (6/1/78)	75.91	151.82	303.64	1518.20	3036.40	5.82	6.01	6.00
7-6 to 8-0 . . . . (12/1/78)	78.19	156.38	312.76	1563.80	3127.60	5.83	5.99	6.00
8-0 to 8-6 . . . . (6/1/79)	80.53	161.06	322.12	1610.60	3221.20	5.84	6.01	6.00
8-6 to 9-0 . . . . (12/1/79)	82.95	165.90	331.80	1659.00	3318.00	5.85	6.00	6.00
9-0 to 9-6 . . . . (6/1/80)	85.44	170.88	341.76	1708.80	3417.60	5.86	5.99	6.00
9-6 to10-0 . . . . (12/1/80)	88.00	176.00	352.00	1760.00	3520.00	5.87	6.00	6.00
10-0 2/ . . . . . (6/1/81)	90.64	181.28	362.56	1812.80	3625.60	5.87 3/	----	----

1/ Month, day, and year on which issues of June 1, 1941, enter each period. For subsequent issue months add the appropriate number of months.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 3.98 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 4

BONDS BEARING ISSUE DATES FROM DEC. 1, 1941, THROUGH APR. 1, 1942

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — THIRD EXTENDED MATURITY PERIOD					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
2-0 to 2-6 . . . 1/(12/1/73)	$57.26	$114.52	$229.04	$1145.20	$2290.40	5.50	5.97	6.00
2-6 to 3-0 . . . . (6/1/74)	58.97	117.94	235.88	1179.40	2358.80	5.60	6.00	6.00
3-0 to 3-6 . . . . (12/1/74)	60.74	121.48	242.96	1214.80	2429.60	5.66	5.99	6.00
3-6 to 4-0 . . . . (6/1/75)	62.56	125.12	250.24	1251.20	2502.40	5.71	6.01	6.00
4-0 to 4-6 . . . . (12/1/75)	64.44	128.88	257.76	1288.80	2577.60	5.75	6.02	6.00
4-6 to 5-0 . . . . (6/1/76)	66.38	132.76	265.52	1327.60	2655.20	5.78	6.00	6.00
5-0 to 5-6 . . . . (12/1/76)	68.37	136.74	273.48	1367.40	2734.80	5.80	6.00	6.00
5-6 to 6-0 . . . . (6/1/77)	70.42	140.84	281.68	1408.40	2816.80	5.82	6.02	6.00
6-0 to 6-6 . . . . (12/1/77)	72.54	145.08	290.16	1450.80	2901.60	5.83	5.98	6.00
6-6 to 7-0 . . . . (6/1/78)	74.71	149.42	298.84	1494.20	2988.40	5.85	6.00	6.00
7-0 to 7-6 . . . . (12/1/78)	76.95	153.90	307.80	1539.00	3078.00	5.86	6.00	6.00
7-6 to 8-0 . . . . (6/1/79)	79.26	158.52	317.04	1585.20	3170.40	5.87	6.01	6.00
8-0 to 8-6 . . . . (12/1/79)	81.64	163.28	326.56	1632.80	3265.60	5.88	5.98	6.00
8-6 to 9-0 . . . . (6/1/80)	84.08	168.16	336.32	1681.60	3363.20	5.88	6.02	6.00
9-0 to 9-6 . . . . (12/1/80)	86.61	173.22	346.44	1732.20	3464.40	5.89	5.98	5.99
9-6 to 10-0 . . . . (6/1/81)	89.20	178.40	356.80	1784.00	3568.00	5.89	6.01	6.01
10-0 2/ . . . . . (12/1/81)	91.88	183.76	367.52	1837.60	3675.20	5.90 3/	---	---

1/ Month, day, and year on which issues of Dec. 1, 1941, enter each period. For subsequent issue months add the ap

2/ Third extended maturity value reached at 40 years and 0 months after issue.

3/ Yield on purchase price from issue date to third extended maturity date is 4.01 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 5

BONDS BEARING ISSUE DATE MAY 1, 1942

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* THIRD EXTENDED MATURITY PERIOD					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
2-0 to 2-6 . . . 1/(5/1/74)	$57.69	$115.38	$230.76	$1153.80	$2307.60	5.50	6.00	6.00
2-6 to 3-0 . . . . (11/1/74)	59.42	118.84	237.68	1188.40	2376.80	5.60	6.02	6.00
3-0 to 3-6 . . . . (5/1/75)	61.21	122.42	244.84	1224.20	2448.40	5.67	5.98	6.00
3-6 to 4-0 . . . . (11/1/75)	63.04	126.08	252.16	1260.80	2521.60	5.71	6.03	6.00
4-0 to 4-6 . . . . (5/1/76)	64.94	129.88	259.76	1298.80	2597.60	5.75	5.97	6.00
4-6 to 5-0 . . . . (11/1/76)	66.88	133.76	267.52	1337.60	2675.20	5.78	6.01	6.00
5-0 to 5-6 . . . . (5/1/77)	68.89	137.78	275.56	1377.80	2755.60	5.80	6.01	6.00
5-6 to 6-0 . . . . (11/1/77)	70.96	141.92	283.84	1419.20	2838.40	5.82	6.00	6.00
6-0 to 6-6 . . . . (5/1/78)	73.09	146.18	292.36	1461.80	2923.60	5.83	5.99	6.00
6-6 to 7-0 . . . . (11/1/78)	75.28	150.56	301.12	1505.60	3011.20	5.85	5.98	6.00
7-0 to 7-6 . . . . (5/1/79)	77.53	155.06	310.12	1550.60	3101.20	5.86	6.01	6.00
7-6 to 8-0 . . . . (11/1/79)	79.86	159.72	319.44	1597.20	3194.40	5.87	5.99	6.00
8-0 to 8-6 . . . . (5/1/80)	82.25	164.50	329.00	1645.00	3290.00	5.87	6.01	6.00
8-6 to 9-0 . . . . (11/1/80)	84.72	169.44	338.88	1694.40	3388.80	5.88	6.02	6.00
9-0 to 9-6 . . . . (5/1/81)	87.27	174.54	349.08	1745.40	3490.80	5.89	6.00	5.99
9-6 to10-0 . . . . (11/1/81)	89.89	179.78	359.56	1797.80	3595.60	5.90	5.99	5.99
10-0 2/ . . . . . (5/1/82)	92.58	185.16	370.32	1851.60	3703.20	5.90 3/	----	----

1/ Month, day, and year on which issues of May 1, 1942, enter each period.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 4.03 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 6

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1942

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* THIRD EXTENDED MATURITY PERIOD					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
1-6 to 2-0 . . . 1/(12/1/73)	$56.72	$113.44	$226.88	$1134.40	$2268.80	5.50	5.99	6.00
2-0 to 2-6 . . . . (6/1/74)	58.42	116.84	233.68	1168.40	2336.80	5.62	6.03	6.00
2-6 to 3-0 . . . . (12/1/74)	60.18	120.36	240.72	1203.60	2407.20	5.70	5.98	6.00
3-0 to 3-6 . . . . (6/1/75)	61.98	123.96	247.92	1239.60	2479.20	5.75	6.03	6.00
3-6 to 4-0 . . . . (12/1/75)	63.85	127.70	255.40	1277.00	2554.00	5.79	5.95	6.00
4-0 to 4-6 . . . . (6/1/76)	65.75	131.50	263.00	1315.00	2630.00	5.81	6.02	6.00
4-6 to 5-0 . . . . (12/1/76)	67.73	135.46	270.92	1354.60	2709.20	5.83	6.02	6.00
5-0 to 5-6 . . . . (6/1/77)	69.77	139.54	279.08	1395.40	2790.80	5.85	5.96	6.00
5-6 to 6-0 . . . . (12/1/77)	71.85	143.70	287.40	1437.00	2874.00	5.86	6.01	6.00
6-0 to 6-6 . . . . (6/1/78)	74.01	148.02	296.04	1480.20	2960.40	5.87	6.00	6.00
6-6 to 7-0 . . . . (12/1/78)	76.23	152.46	304.92	1524.60	3049.20	5.88	6.01	6.00
7-0 to 7-6 . . . . (6/1/79)	78.52	157.04	314.08	1570.40	3140.80	5.89	5.99	6.00
7-6 to 8-0 . . . . (12/1/79)	80.87	161.74	323.48	1617.40	3234.80	5.90	6.01	6.00
8-0 to 8-6 . . . . (6/1/80)	83.30	166.60	333.20	1666.00	3332.00	5.91	6.00	6.00
8-6 to 9-0 . . . . (12/1/80)	85.80	171.60	343.20	1716.00	3432.00	5.91	5.99	6.00
9-0 to 9-6 . . . . (6/1/81)	88.37	176.74	353.48	1767.40	3534.80	5.92	6.00	6.00
9-6 to 10-0 . . . . (12/1/81)	91.02	182.04	364.08	1820.40	3640.80	5.92	6.00	6.00
10-0 2/ . . . . . (6/1/82)	93.75	187.50	375.00	1875.00	3750.00	5.92 3/	----	----

1/ Month, day, and year on which issues of June 1, 1942, enter each period. For subsequent issue months add the appropriate number of months.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 4.06 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 7

BONDS BEARING ISSUE DATES FROM DEC. 1, 1942, THROUGH MAY 1, 1943

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)*					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
	THIRD EXTENDED MATURITY PERIOD							
						Percent	Percent	Percent
1-0 to 1-6 . . . 1/(12/1/73)	$55.81	$111.62	$223.24	$1116.20	$2232.40	5.51	5.98	6.00
1-6 to 2-0 . . . . (6/1/74)	57.48	114.96	229.92	1149.60	2299.20	5.66	6.02	6.00
2-0 to 2-6 . . . . (12/1/74)	59.21	118.42	236.84	1184.20	2368.40	5.75	5.98	6.00
2-6 to 3-0 . . . . (6/1/75)	60.98	121.96	243.92	1219.60	2439.20	5.80	6.00	6.00
3-0 to 3-6 . . . . (12/1/75)	62.81	125.62	251.24	1256.20	2512.40	5.83	5.99	6.00
3-6 to 4-0 . . . . (6/1/76)	64.69	129.38	258.76	1293.80	2587.60	5.85	6.00	6.00
4-0 to 4-6 . . . . (12/1/76)	66.63	133.26	266.52	1332.60	2665.20	5.87	6.03	6.00
4-6 to 5-0 . . . . (6/1/77)	68.64	137.28	274.56	1372.80	2745.60	5.89	5.97	6.00
5-0 to 5-6 . . . . (12/1/77)	70.69	141.38	282.76	1413.80	2827.60	5.90	6.03	6.00
5-6 to 6-0 . . . . (6/1/78)	72.82	145.64	291.28	1456.40	2912.80	5.91	5.99	6.00
6-0 to 6-6 . . . . (12/1/78)	75.00	150.00	300.00	1500.00	3000.00	5.92	6.00	6.00
6-6 to 7-0 . . . . (6/1/79)	77.25	154.50	309.00	1545.00	3090.00	5.92	6.01	6.00
7-0 to 7-6 . . . . (12/1/79)	79.57	159.14	318.28	1591.40	3182.80	5.93	6.01	6.00
7-6 to 8-0 . . . . (6/1/80)	81.96	163.92	327.84	1639.20	3278.40	5.93	5.98	6.00
8-0 to 8-6 . . . . (12/1/80)	84.41	168.82	337.64	1688.20	3376.40	5.94	5.99	6.00
8-6 to 9-0 . . . . (6/1/81)	86.94	173.88	347.76	1738.80	3477.60	5.94	6.03	6.01
9-0 to 9-6 . . . . (12/1/81)	89.56	179.12	358.24	1791.20	3582.40	5.95	5.98	6.00
9-6 to 10-0 . . . . (6/1/82)	92.24	184.48	368.96	1844.80	3689.60	5.95	6.01	6.01
10-0 2/ . . . . . (12/1/82)	95.01	190.02	380.04	1900.20	3800.40	5.95 3/	---	---

1/ Month, day, and year on which issues of Dec. 1, 1942, enter each period. For subsequent issue months add the appropriate number of months.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 4.10 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 8

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1943

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	1000.00			
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* THIRD EXTENDED MATURITY PERIOD					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
0-6 to 1-0 . . . 1/(12/1/73)	$54.89	$109.78	$219.56	$1097.80	$2195.60	5.50	6.01	6.00
1-0 to 1-6 . . . . (6/1/74)	56.54	113.08	226.16	1130.80	2261.60	5.76	5.98	6.00
1-6 to 2-0 . . . . (12/1/74)	58.23	116.46	232.92	1164.60	2329.20	5.83	6.01	6.00
2-0 to 2-6 . . . . (6/1/75)	59.98	119.96	239.92	1199.60	2399.20	5.88	6.00	6.00
2-6 to 3-0 . . . . (12/1/75)	61.78	123.56	247.12	1235.60	2471.20	5.90	5.99	6.00
3-0 to 3-6 . . . . (6/1/76)	63.63	127.26	254.52	1272.60	2545.20	5.92	6.00	6.00
3-6 to 4-0 . . . . (12/1/76)	65.54	131.08	262.16	1310.80	2621.60	5.93	6.01	6.00
4-0 to 4-6 . . . . (6/1/77)	67.51	135.02	270.04	1350.20	2700.40	5.94	5.98	6.00
4-6 to 5-0 . . . . (12/1/77)	69.53	139.06	278.12	1390.60	2781.20	5.94	6.01	6.00
5-0 to 5-6 . . . . (6/1/78)	71.62	143.24	286.48	1432.40	2864.80	5.95	6.00	6.00
5-6 to 6-0 . . . . (12/1/78)	73.77	147.54	295.08	1475.40	2950.80	5.96	5.99	6.00
6-0 to 6-6 . . . . (6/1/79)	75.98	151.96	303.92	1519.60	3039.20	5.96	6.00	6.00
6-6 to 7-0 . . . . (12/1/79)	78.26	156.52	313.04	1565.20	3130.40	5.96	6.01	6.00
7-0 to 7-6 . . . . (6/1/80)	80.61	161.22	322.44	1612.20	3224.40	5.96	6.00	6.00
7-6 to 8-0 . . . . (12/1/80)	83.03	166.06	332.12	1660.60	3321.20	5.97	5.97	6.00
8-0 to 8-6 . . . . (6/1/81)	85.51	171.02	342.04	1710.20	3420.40	5.97	6.01	6.00
8-6 to 9-0 . . . . (12/1/81)	88.08	176.16	352.32	1761.60	3523.20	5.97	5.99	6.00
9-0 to 9-6 . . . . (6/1/82)	90.72	181.44	362.88	1814.40	3628.80	5.97	6.02	6.01
9-6 to 10-0 . . . . (12/1/82)	93.45	186.90	373.80	1869.00	3738.00	5.97	5.99	5.99
10-0 2/ . . . . . (6/1/83)	96.25	192.50	385.00	1925.00	3850.00	5.98 3/	—	—

1/ Month, day, and year on which issues of June 1, 1943, enter each period. For subsequent issue months add the appropriate number of months.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 4.13 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 9

BONDS BEARING ISSUE DATES FROM DEC. 1, 1943, THROUGH MAY 1, 1944

Issue price	$18.75	$37.50	$75.00	$375.00	$750.00	Approximate investment yield		
Denomination	25.00	50.00	100.00	500.00	1000.00	(annual percentage rate)		
Period (years and months after second extended maturity at 30 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period) — THIRD EXTENDED MATURITY PERIOD**					(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 3rd extended maturity
						Percent	Percent	Percent
0-0 to 0-6 . . . 1/(12/1/73)	$53.99	$107.98	$215.96	$1079.80	$2159.60	----	6.00	6.00
0-6 to 1-0 . . . . (6/1/74)	55.61	111.22	222.44	1112.20	2224.40	6.00	6.01	6.00
1-0 to 1-6 . . . . (12/1/74)	57.28	114.56	229.12	1145.60	2291.20	6.00	6.01	6.00
1-6 to 2-0 . . . . (6/1/75)	59.00	118.00	236.00	1180.00	2360.00	6.00	6.00	6.00
2-0 to 2-6 . . . . (12/1/75)	60.77	121.54	243.08	1215.40	2430.80	6.00	5.99	6.00
2-6 to 3-0 . . . . (6/1/76)	62.59	125.18	250.36	1251.80	2503.60	6.00	6.01	6.00
3-0 to 3-6 . . . . (12/1/76)	64.47	128.94	257.88	1289.40	2578.80	6.00	5.99	6.00
3-6 to 4-0 . . . . (6/1/77)	66.40	132.80	265.60	1328.00	2656.00	6.00	5.99	6.00
4-0 to 4-6 . . . . (12/1/77)	68.39	136.78	273.56	1367.80	2735.60	6.00	6.00	6.00
4-6 to 5-0 . . . . (6/1/78)	70.44	140.88	281.76	1408.80	2817.60	6.00	6.02	6.00
5-0 to 5-6 . . . . (12/1/78)	72.56	145.12	290.24	1451.20	2902.40	6.00	5.98	6.00
5-6 to 6-0 . . . . (6/1/79)	74.73	149.46	298.92	1494.60	2989.20	6.00	6.02	6.00
6-0 to 6-6 . . . . (12/1/79)	76.98	153.96	307.92	1539.60	3079.20	6.00	6.00	6.00
6-6 to 7-0 . . . . (6/1/80)	79.29	158.58	317.16	1585.80	3171.60	6.00	5.98	6.00
7-0 to 7-6 . . . . (12/1/80)	81.66	163.32	326.64	1633.20	3266.40	6.00	6.00	6.00
7-6 to 8-0 . . . . (6/1/81)	84.11	168.22	336.44	1682.20	3364.40	6.00	6.02	6.00
8-0 to 8-6 . . . . (12/1/81)	86.64	173.28	346.56	1732.80	3465.60	6.00	6.00	6.00
8-6 to 9-0 . . . . (6/1/82)	89.24	178.48	356.96	1784.80	3569.60	6.00	5.98	6.00
9-0 to 9-6 . . . . (12/1/82)	91.91	183.82	367.64	1838.20	3676.40	6.00	6.01	6.00
9-6 to 10-0 . . . . (6/1/83)	94.67	189.34	378.68	1893.40	3786.80	6.00	6.00	6.00
10-0 2/ . . . . . (12/1/83)	97.51	195.02	390.04	1950.20	3900.40	6.00 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1943, enter each period. For subsequent issue months add the appropriate number of months.
2/ Third extended maturity value reached at 40 years and 0 months after issue.
3/ Yield on purchase price from issue date to third extended maturity date is 4.16 percent.

** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 10

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1944

Issue price	$7.50	$18.75	$37.50	$75.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD						(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. (a) to 2nd extended maturity
							Percent	Percent	Percent
9-6 to10-0 . . . 1/(12/1/73)	$21.05	$52.63	$105.26	$210.52	$1052.60	$2105.20	4.49	7.75	7.75
10-0 2/ . . . . . (6/1/74)	21.87	54.67	109.34	218.68	1093.40	2186.80	4.65 3/	----	----
(years and months after 2nd extended maturity date)	THIRD EXTENDED MATURITY PERIOD**								(b) to 3rd extended maturity
0-0 to 0-6 . . . . (6/1/74)	$21.87	$54.67	$109.34	$218.68	$1093.40	$2186.80	----	6.00	6.00
0-6 to 1-0 . . . . (12/1/74)	22.52	56.31	112.62	225.24	1126.20	2252.40	6.00	6.00	6.00
1-0 to 1-6 . . . . (6/1/75)	23.20	58.00	116.00	232.00	1160.00	2320.00	6.00	6.00	6.00
1-6 to 2-0 . . . . (12/1/75)	23.90	59.74	119.48	238.96	1194.80	2389.60	6.00	5.99	6.00
2-0 to 2-6 . . . . (6/1/76)	24.61	61.53	123.06	246.12	1230.60	2461.20	6.00	6.01	6.00
2-6 to 3-0 . . . . (12/1/76)	25.35	63.38	126.76	253.52	1267.60	2535.20	6.00	6.00	6.00
3-0 to 3-6 . . . . (6/1/77)	26.11	65.28	130.56	261.12	1305.60	2611.20	6.00	6.00	6.00
3-6 to 4-0 . . . . (12/1/77)	26.90	67.24	134.48	268.96	1344.80	2689.60	6.00	5.98	6.00
4-0 to 4-6 . . . . (6/1/78)	27.70	69.25	138.50	277.00	1385.00	2770.00	6.00	6.01	6.00
4-6 to 5-0 . . . . (12/1/78)	28.53	71.33	142.66	285.32	1426.60	2853.20	6.00	6.00	6.00
5-0 to 5-6 . . . . (6/1/79)	29.39	73.47	146.94	293.88	1469.40	2938.80	6.00	6.02	6.00
5-6 to 6-0 . . . . (12/1/79)	30.27	75.68	151.36	302.72	1513.60	3027.20	6.00	6.00	6.00
6-0 to 6-6 . . . . (6/1/80)	31.18	77.95	155.90	311.80	1559.00	3118.00	6.00	5.98	6.00
6-6 to 7-0 . . . . (12/1/80)	32.11	80.28	160.56	321.12	1605.60	3211.20	6.00	6.00	6.00
7-0 to 7-6 . . . . (6/1/81)	33.08	82.69	165.38	330.76	1653.80	3307.60	6.00	6.00	6.00
7-6 to 8-0 . . . . (12/1/81)	34.07	85.17	170.34	340.68	1703.40	3406.80	6.00	6.01	6.00
8-0 to 8-6 . . . . (6/1/82)	35.09	87.73	175.46	350.92	1754.60	3509.20	6.00	6.00	6.00
8-6 to 9-0 . . . . (12/1/82)	36.14	90.36	180.72	361.44	1807.20	3614.40	6.00	6.00	6.00
9-0 to 9-6 . . . . (6/1/83)	37.23	93.07	186.14	372.28	1861.40	3722.80	6.00	6.00	6.00
9-6 to10-0 . . . . (12/1/83)	38.34	95.86	191.72	383.44	1917.20	3834.40	6.00	6.01	6.01
10-0 4/ . . . . . (6/1/84)	39.50	98.74	197.48	394.96	1974.80	3949.60	6.00 3/	----	----

1/ Month, day, and year on which issues of June 1, 1944, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to 2nd extended maturity date is 3.60 percent; to 3rd extended maturity eate is 4.20 percent.
4/ Third extended maturity value reached at 40 years and 0 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 11

BONDS BEARING ISSUE DATES FROM DEC. 1, 1944, THROUGH MAY 1, 1945

Issue price	$7.50	$18.75	$37.50	$75.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD						(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. (a) to 2nd extended maturity
							Percent	Percent	Percent
9-0 to 9-6 . . . 1/(12/1/73)	$20.64	$51.60	$103.20	$206.40	$1032.00	$2064.00	4.49	6.51	7.23
9-6 to10-0 . . . . (6/1/74)	21.31	53.28	106.56	213.12	1065.60	2131.20	4.60	7.96	7.96
10-0 2/ . . . . . (12/1/74)	22.16	55.40	110.80	221.60	1108.00	2216.00	4.77 3/	----	----
(years and months after 2nd extended maturity date)	THIRD EXTENDED MATURITY PERIOD**								(b) to 3rd extended maturity
0-0 to 0-6 . . . . (12/1/74)	$22.16	$55.40	$110.80	$221.60	$1108.00	$2216.00	----	5.99	6.00
0-6 to 1-0 . . . . (6/1/75)	22.82	57.06	114.12	228.24	1141.20	2282.40	5.99	5.99	6.00
1-0 to 1-6 . . . . (12/1/75)	23.51	58.77	117.54	235.08	1175.40	2350.80	5.99	6.02	6.00
1-6 to 2-0 . . . . (6/1/76)	24.22	60.54	121.08	242.16	1210.80	2421.60	6.00	5.98	6.00
2-0 to 2-6 . . . . (12/1/76)	24.94	62.35	124.70	249.40	1247.00	2494.00	6.00	6.00	6.00
2-6 to 3-0 . . . . (6/1/77)	25.69	64.22	128.44	256.88	1284.40	2568.80	6.00	6.01	6.00
3-0 to 3-6 . . . . (12/1/77)	26.46	66.15	132.30	264.60	1323.00	2646.00	6.00	6.02	6.00
3-6 to 4-0 . . . . (6/1/78)	27.26	68.14	136.28	272.56	1362.80	2725.60	6.00	5.99	6.00
4-0 to 4-6 . . . . (12/1/78)	28.07	70.18	140.36	280.72	1403.60	2807.20	6.00	5.98	6.00
4-6 to 5-0 . . . . (6/1/79)	28.91	72.28	144.56	289.12	1445.60	2891.20	6.00	6.00	6.00
5-0 to 5-6 . . . . (12/1/79)	29.78	74.45	148.90	297.80	1489.00	2978.00	6.00	6.02	6.00
5-6 to 6-0 . . . . (6/1/80)	30.68	76.69	153.38	306.76	1533.80	3067.60	6.00	6.00	6.00
6-0 to 6-6 . . . . (12/1/80)	31.60	78.99	157.98	315.96	1579.80	3159.60	6.00	6.00	6.00
6-6 to 7-0 . . . . (6/1/81)	32.54	81.36	162.72	325.44	1627.20	3254.40	6.00	6.00	6.00
7-0 to 7-6 . . . . (12/1/81)	33.52	83.80	167.60	335.20	1676.00	3352.00	6.00	5.99	6.00
7-6 to 8-0 . . . . (6/1/82)	34.52	86.31	172.62	345.24	1726.20	3452.40	6.00	6.00	6.00
8-0 to 8-6 . . . . (12/1/82)	35.56	88.90	177.80	355.60	1778.00	3556.00	6.00	6.01	6.00
8-6 to 9-0 . . . . (6/1/83)	36.63	91.57	183.14	366.28	1831.40	3662.80	6.00	5.98	6.00
9-0 to 9-6 . . . . (12/1/83)	37.72	94.31	188.62	377.24	1886.20	3772.40	6.00	6.00	6.01
9-6 to10-0 . . . . (6/1/84)	38.86	97.14	194.28	388.56	1942.80	3885.60	6.00	6.01	6.01
10-0 4/ . . . . . (12/1/84)	40.02	100.06	200.12	400.24	2001.20	4002.40	6.00 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1944, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to 2nd extended maturity date is 3.64 percent; to 3rd extended maturity eate is 4.23 percent.
4/ Third extended maturity value reached at 40 years and 0 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 12

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1945

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
8-6 to 9-0 . . . 1/(12/1/73)	$20.26	$50.66	$101.32	$202.64	$405.28	$1013.20	$2026.40	4.51	6.40	6.98
9-0 to 9-6 . . . . (6/1/74)	20.91	52.28	104.56	209.12	418.24	1045.60	2091.20	4.61	6.50	7.27
9-6 to10-0 . . . . (12/1/74)	21.59	53.98	107.96	215.92	431.84	1079.60	2159.20	4.71	8.04	8.04
10-0 2/ . . . . . (6/1/75)	22.46	56.15	112.30	224.60	449.20	1123.00	2246.00	4.88 3/	----	----

1/ Month, day, and year on which issues of June 1, 1945, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 3.69 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 13

BONDS BEARING ISSUE DATES FROM DEC. 1, 1945, THROUGH MAY 1, 1946

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
8-0 to 8-6 . . . 1/(12/1/73)	$20.10	$50.25	$100.50	$201.00	$402.00	$1005.00	$2010.00	4.66	6.21	6.77
8-6 to 9-0 . . . . (6/1/74)	20.72	51.81	103.62	207.24	414.48	1036.20	2072.40	4.75	6.29	6.96
9-0 to 9-6 . . . . (12/1/74)	21.38	53.44	106.88	213.76	427.52	1068.80	2137.60	4.83	6.51	7.30
9-6 to10-0 . . . . (6/1/75)	22.07	55.18	110.36	220.72	441.44	1103.60	2207.20	4.92	8.08	8.08
10-0 2/ . . . . . . (12/1/75)	22.96	57.41	114.82	229.64	459.28	1148.20	2296.40	5.08 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1945, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 3.77 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 14

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1946

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
7-6 to 8-0 . . . 1/(12/1/73)	$19.74	$49.36	$ 98.72	$197.44	$394.88	$987.20	$1974.40	4.67	6.08	6.67
8-0 to 8-6 . . . . (6/1/74)	20.34	50.86	101.72	203.44	406.88	1017.20	2034.40	4.76	6.25	6.82
8-6 to 9-0 . . . . (12/1/74)	20.98	52.45	104.90	209.80	419.60	1049.00	2098.00	4.84	6.37	7.01
9-0 to 9-6 . . . . (6/1/75)	21.65	54.12	108.24	216.48	432.96	1082.40	2164.80	4.93	6.47	7.33
9-6 to10-0 . . . . (12/1/75)	22.35	55.87	111.74	223.48	446.96	1117.40	2234.80	5.01	8.20	8.20
10-0 2/ . . . . . (6/1/76)	23.26	58.16	116.32	232.64	465.28	1163.20	2326.40	5.17 3/	---	---

1/ Month, day, and year on which issues of June 1, 1946, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 3.81 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 15

BONDS BEARING ISSUE DATES FROM DEC. 1, 1946, THROUGH MAY 1, 1947

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
7-0 to 7-6 . . . 1/(12/1/73)	$19.40	$48.50	$ 97.00	$194.00	$388.00	$970.00	$1940.00	4.68	6.10	6.62
7-6 to 8-0 . . . . (6/1/74)	19.99	49.98	99.96	199.92	399.84	999.60	1999.20	4.78	6.16	6.72
8-0 to 8-6 . . . . (12/1/74)	20.61	51.52	103.04	206.08	412.16	1030.40	2060.80	4.86	6.29	6.86
8-6 to 9-0 . . . . (6/1/75)	21.26	53.14	106.28	212.56	425.12	1062.80	2125.60	4.95	6.36	7.05
9-0 to 9-6 . . . . (12/1/75)	21.93	54.83	109.66	219.32	438.64	1096.60	2193.20	5.02	6.46	7.40
9-6 to 10-0 . . . . (6/1/76)	22.64	56.60	113.20	226.40	452.80	1132.00	2264.00	5.10	8.34	8.34
10-0 2/ . . . . . (12/1/76)	23.58	58.96	117.92	235.84	471.68	1179.20	2358.40	5.26 3/	---	---

1/ Month, day, and year on which issues of Dec. 1, 1946, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 3.86 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 16

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1947

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
6-6 to 7-0 ... 1/(12/1/73)	$19.07	$47.67	$ 95.34	$190.68	$381.36	$953.40	$1906.80	4.71	6.04	6.56
7-0 to 7-6 .... (6/1/74)	19.64	49.11	98.22	196.44	392.88	982.20	1964.40	4.80	6.07	6.65
7-6 to 8-0 .... (12/1/74)	20.24	50.60	101.20	202.40	404.80	1012.00	2024.00	4.89	6.25	6.77
8-0 to 8-6 .... (6/1/75)	20.87	52.18	104.36	208.72	417.44	1043.60	2087.20	4.97	6.25	6.90
8-6 to 9-0 .... (12/1/75)	21.52	53.81	107.62	215.24	430.48	1076.20	2152.40	5.05	6.43	7.12
9-0 to 9-6 .... (6/1/76)	22.22	55.54	111.08	222.16	444.32	1110.80	2221.60	5.12	6.48	7.46
9-6 to10-0 .... (12/1/76)	22.94	57.34	114.68	229.36	458.72	1146.80	2293.60	5.19	8.44	8.44
10-0 2/ ..... (6/1/77)	23.90	59.76	119.52	239.04	478.08	1195.20	2390.40	5.35 3/	---	---

1/ Month, day, and year on which issues of June 1, 1947, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 3.90 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 17

BONDS BEARING ISSUE DATES FROM DEC. 1, 1947, THROUGH MAY 1, 1948

Issue price . . . . Denomination	$7.50 10.00	$18.75 25.00	$37.50 50.00	$75.00 100.00	$150.00 200.00	$375.00 500.00	$750.00 1000.00	Approximate investment yield (annual percentage rate)		
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)*							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
	SECOND EXTENDED MATURITY PERIOD									
								Percent	Percent	Percent
6-0 to 6-6 . . . 1/(12/1/73)	$18.74	$46.86	$ 93.72	$187.44	$374.88	$937.20	$1874.40	4.73	5.98	6.52
6-6 to 7-0 . . . . (6/1/74)	19.30	48.26	96.52	193.04	386.08	965.20	1930.40	4.83	6.05	6.59
7-0 to 7-6 . . . . (12/1/74)	19.89	49.72	99.44	198.88	397.76	994.40	1988.80	4.92	6.15	6.68
7-6 to 8-0 . . . . (6/1/75)	20.50	51.25	102.50	205.00	410.00	1025.00	2050.00	5.00	6.28	6.79
8-0 to 8-6 . . . . (12/1/75)	21.14	52.86	105.72	211.44	422.88	1057.20	2114.40	5.08	6.28	6.92
8-6 to 9-0 . . . . (6/1/76)	21.81	54.52	109.04	218.08	436.16	1090.40	2180.80	5.15	6.38	7.13
9-0 to 9-6 . . . . (12/1/76)	22.50	56.26	112.52	225.04	450.08	1125.20	2250.40	5.22	6.54	7.50
9-6 to10-0 . . . . (6/1/77)	23.24	58.10	116.20	232.40	464.80	1162.00	2324.00	5.29	8.47	8.47
10-0 2/ . . . . . (12/1/77)	24.22	60.56	121.12	242.24	484.48	1211.20	2422.40	5.44 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1947, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 3.95 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 18

BONDS BEARING ISSUE DATES FROM DEC. 1, 1948, THROUGH MAY 1, 1949

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
5-0 to 5-6 . . . 1/(12/1/73)	$18.13	$45.32	$ 90.64	$181.28	$362.56	$906.40	$1812.80	4.82	5.87	6.45
5-6 to 6-0 . . . . (6/1/74)	18.66	46.65	93.30	186.60	373.20	933.00	1866.00	4.91	5.96	6.51
6-0 to 6-6 . . . . (12/1/74)	19.22	48.04	96.08	192.16	384.32	960.80	1921.60	5.00	6.08	6.58
6-6 to 7-0 . . . . (6/1/75)	19.80	49.50	99.00	198.00	396.00	990.00	1980.00	5.08	6.14	6.65
7-0 to 7-6 . . . . (12/1/75)	20.41	51.02	102.04	204.08	408.16	1020.40	2040.80	5.16	6.23	6.74
7-6 to 8-0 . . . . (6/1/76)	21.04	52.61	105.22	210.44	420.88	1052.20	2104.40	5.23	6.31	6.84
8-0 to 8-6 . . . . (12/1/76)	21.71	54.27	108.54	217.08	434.16	1085.40	2170.80	5.30	6.34	6.97
8-6 to 9-0 . . . . (6/1/77)	22.40	55.99	111.98	223.96	447.92	1119.80	2239.60	5.36	6.43	7.18
9-0 to 9-6 . . . . (12/1/77)	23.12	57.79	115.58	231.16	462.32	1155.80	2311.60	5.42	6.51	7.56
9-6 to10-0 . . . . (6/1/78)	23.87	59.67	119.34	238.68	477.36	1193.40	2386.80	5.47	8.61	8.61
10-0 2/ . . . . . (12/1/78)	24.90	62.24	124.48	248.96	497.92	1244.80	2489.60	5.63 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1948, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.04 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 19

BONDS BEARING ISSUE DATES FROM DEC. 1, 1948, THROUGH MAY 1, 1949

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
5-0 to 5-6 . . . 1/(12/1/73)	$18.13	$45.32	$ 90.64	$181.28	$362.56	$906.40	$1812.80	4.82	5.87	6.45
5-6 to 6-0 . . . . (6/1/74)	18.66	46.65	93.30	186.60	373.20	933.00	1866.00	4.91	5.96	6.51
6-0 to 6-6 . . . . (12/1/74)	19.22	48.04	96.08	192.16	384.32	960.80	1921.60	5.00	6.08	6.58
6-6 to 7-0 . . . . (6/1/75)	19.80	49.50	99.00	198.00	396.00	990.00	1980.00	5.08	6.14	6.65
7-0 to 7-6 . . . . (12/1/75)	20.41	51.02	102.04	204.08	408.16	1020.40	2040.80	5.16	6.23	6.74
7-6 to 8-0 . . . . (6/1/76)	21.04	52.61	105.22	210.44	420.88	1052.20	2104.40	5.23	6.31	6.84
8-0 to 8-6 . . . . (12/1/76)	21.71	54.27	108.54	217.08	434.16	1085.40	2170.80	5.30	6.34	6.97
8-6 to 9-0 . . . . (6/1/77)	22.40	55.99	111.98	223.96	447.92	1119.80	2239.60	5.36	6.43	7.18
9-0 to 9-6 . . . . (12/1/77)	23.12	57.79	115.58	231.16	462.32	1155.80	2311.60	5.42	6.51	7.56
9-6 to10-0 . . . . (6/1/78)	23.87	59.67	119.34	238.68	477.36	1193.40	2386.80	5.47	8.61	8.61
10-0 2/ . . . . . (12/1/78)	24.90	62.24	124.48	248.96	497.92	1244.80	2489.60	5.63 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1948, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.04 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 20

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1949

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
4-6 to 5-0 . . . 1/(12/1/73)	$18.70	$46.75	$ 93.50	$187.00	$374.00	$935.00	$1870.00	5.39	6.03	6.00
5-0 to 5-6 . . . . (6/1/74)	19.26	48.16	96.32	192.64	385.28	963.20	1926.40	5.45	5.94	6.00
5-6 to 6-0 . . . . (12/1/74)	19.84	49.59	99.18	198.36	396.72	991.80	1983.60	5.50	6.01	6.00
6-0 to 6-6 . . . . (6/1/75)	20.43	51.08	102.16	204.32	408.64	1021.60	2043.20	5.54	6.03	6.00
6-6 to 7-0 . . . . (12/1/75)	21.05	52.62	105.24	210.48	420.96	1052.40	2104.80	5.58	5.97	6.00
7-0 to 7-6 . . . . (6/1/76)	21.68	54.19	108.38	216.76	433.52	1083.80	2167.60	5.61	6.02	6.00
7-6 to 8-0 . . . . (12/1/76)	22.33	55.82	111.64	223.28	446.56	1116.40	2232.80	5.63	6.02	6.00
8-0 to 8-6 . . . . (6/1/77)	23.00	57.50	115.00	230.00	460.00	1150.00	2300.00	5.66	5.95	5.99
8-6 to 9-0 . . . . (12/1/77)	23.68	59.21	118.42	236.84	473.68	1184.20	2368.40	5.67	6.01	6.01
9-0 to 9-6 . . . . (6/1/78)	24.40	60.99	121.98	243.96	487.92	1219.80	2439.60	5.69	6.03	6.01
9-6 to10-0 . . . . (12/1/78)	25.13	62.83	125.66	251.32	502.64	1256.60	2513.20	5.71	5.98	5.98
10-0 2/ . . . . . (6/1/79)	25.88	64.71	129.42	258.84	517.68	1294.20	2588.40	5.72 3/	----	----

1/ Month, day, and year on which issues of June 1, 1949, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.17 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 21

BONDS BEARING ISSUE DATES FROM DEC. 1, 1949, THROUGH MAY 1, 1950

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
4-0 to 4-6 . . . . 1/(12/1/73)	$18.34	$45.86	$ 91.72	$183.44	$366.88	$917.20	$1834.40	5.44	5.97	6.00
4-6 to 5-0 . . . . (6/1/74)	18.89	47.23	94.46	188.92	377.84	944.60	1889.20	5.50	6.01	6.00
5-0 to 5-6 . . . . (12/1/74)	19.46	48.65	97.30	194.60	389.20	973.00	1946.00	5.55	6.00	6.00
5-6 to 6-0 . . . . (6/1/75)	20.04	50.11	100.22	200.44	400.88	1002.20	2004.40	5.59	5.99	6.00
6-0 to 6-6 . . . . (12/1/75)	20.64	51.61	103.22	206.44	412.88	1032.20	2064.40	5.62	5.97	6.00
6-6 to 7-0 . . . . (6/1/76)	21.26	53.15	106.30	212.60	425.20	1063.00	2126.00	5.65	6.02	6.01
7-0 to 7-6 . . . . (12/1/76)	21.90	54.75	109.50	219.00	438.00	1095.00	2190.00	5.68	6.03	6.00
7-6 to 8-0 . . . . (6/1/77)	22.56	56.40	112.80	225.60	451.20	1128.00	2256.00	5.70	5.99	6.00
8-0 to 8-6 . . . . (12/1/77)	23.24	58.09	116.18	232.36	464.72	1161.80	2323.60	5.72	5.99	6.00
8-6 to 9-0 . . . . (6/1/78)	23.93	59.83	119.66	239.32	478.64	1196.60	2393.20	5.73	6.02	6.00
9-0 to 9-6 . . . . (12/1/78)	24.65	61.63	123.26	246.52	493.04	1232.60	2465.20	5.75	5.97	5.99
9-6 to10-0 . . . . (6/1/79)	25.39	63.47	126.94	253.88	507.76	1269.40	2538.80	5.76	6.02	6.02
10-0 2/ . . . . . (12/1/79)	26.15	65.38	130.76	261.52	523.04	1307.60	2615.20	5.77 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1949, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.21 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 22

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1950

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD						(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
							Percent	Percent	Percent
3-6 to 4-0 . . . 1/(12/1/73)	$45.01	$90.02	$180.04	$360.08	$900.20	$1800.40	5.50	6.00	6.01
4-0 to 4-6 . . . . (6/1/74)	46.36	92.72	185.44	370.88	927.20	1854.40	5.56	6.04	6.01
4-6 to 5-0 . . . . (12/1/74)	47.76	95.52	191.04	382.08	955.20	1910.40	5.61	6.03	6.00
5-0 to 5-6 . . . . (6/1/75)	49.20	98.40	196.80	393.60	984.00	1968.00	5.65	5.98	6.00
5-6 to 6-0 . . . . (12/1/75)	50.67	101.34	202.68	405.36	1013.40	2026.80	5.68	6.00	6.00
6-0 to 6-6 . . . . (6/1/76)	52.19	104.38	208.76	417.52	1043.80	2087.60	5.71	5.98	6.00
6-6 to 7-0 . . . . (12/1/76)	53.75	107.50	215.00	430.00	1075.00	2150.00	5.73	6.03	6.01
7-0 to 7-6 . . . . (6/1/77)	55.37	110.74	221.48	442.96	1107.40	2214.80	5.75	6.00	6.00
7-6 to 8-0 . . . . (12/1/77)	57.03	114.06	228.12	456.24	1140.60	2281.20	5.77	6.00	6.00
8-0 to 8-6 . . . . (6/1/78)	58.74	117.48	234.96	469.92	1174.80	2349.60	5.78	5.99	6.01
8-6 to 9-0 . . . . (12/1/78)	60.50	121.00	242.00	484.00	1210.00	2420.00	5.79	5.98	6.01
9-0 to 9-6 . . . . (6/1/79)	62.31	124.62	249.24	498.48	1246.20	2492.40	5.80	6.00	6.02
9-6 to10-0 . . . . (12/1/79)	64.18	128.36	256.72	513.44	1283.60	2567.20	5.82	6.05	6.05
10-0 2/ . . . . . (6/1/80)	66.12	132.24	264.48	528.96	1322.40	2644.80	5.83 3/	----	----

1/ Month, day, and year on which issues of June 1, 1950, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.25 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 23

BONDS BEARING ISSUE DATES FROM DEC. 1, 1950, THROUGH MAY 1, 1951

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$ 750.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD						(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
							Percent	Percent	Percent
3-0 to 3-6 . . . 1/(12/1/73)	$44.25	$88.50	$177.00	$354.00	$885.00	$1770.00	5.50	5.97	6.00
3-6 to 4-0 . . . . (6/1/74)	45.57	91.14	182.28	364.56	911.40	1822.80	5.57	6.01	6.00
4-0 to 4-6 . . . . (12/1/74)	46.94	93.88	187.76	375.52	938.80	1877.60	5.62	6.01	6.00
4-6 to 5-0 . . . . (6/1/75)	48.35	96.70	193.40	386.80	967.00	1934.00	5.67	6.00	6.00
5-0 to 5-6 . . . . (12/1/75)	49.80	99.60	199.20	398.40	996.00	1992.00	5.70	5.98	6.00
5-6 to 6-0 . . . . (6/1/76)	51.29	102.58	205.16	410.32	1025.80	2051.60	5.73	6.01	6.00
6-0 to 6-6 . . . . (12/1/76)	52.83	105.66	211.32	422.64	1056.60	2113.20	5.75	6.02	6.00
6-6 to 7-0 . . . . (6/1/77)	54.42	108.84	217.68	435.36	1088.40	2176.80	5.77	5.99	6.00
7-0 to 7-6 . . . . (12/1/77)	56.05	112.10	224.20	448.40	1121.00	2242.00	5.79	5.99	6.00
7-6 to 8-0 . . . . (6/1/78)	57.73	115.46	230.92	461.84	1154.60	2309.20	5.80	6.03	6.00
8-0 to 8-6 . . . . (12/1/78)	59.47	118.94	237.88	475.76	1189.40	2378.80	5.81	5.99	6.00
8-6 to 9-0 . . . . (6/1/79)	61.25	122.50	245.00	490.00	1225.00	2450.00	5.82	5.98	6.00
9-0 to 9-6 . . . . (12/1/79)	63.08	126.16	252.32	504.64	1261.60	2523.20	5.83	6.02	6.01
9-6 to10-0 . . . . (6/1/80)	64.98	129.96	259.92	519.84	1299.60	2599.20	5.84	6.00	6.00
10-0 2/ . . . . . (12/1/80)	66.93	133.86	267.72	535.44	1338.60	2677.20	5.85 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1950, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.29 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 24

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1951

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$ 750.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD						(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
							Percent	Percent	Percent
2-6 to 3-0 . . . 1/(12/1/73)	$43.49	$86.98	$173.96	$347.92	$869.80	$1739.60	5.50	5.98	6.00
3-0 to 3-6 . . . . (6/1/74)	44.79	89.58	179.16	358.32	895.80	1791.60	5.58	5.98	6.00
3-6 to 4-0 . . . . (12/1/74)	46.13	92.26	184.52	369.04	922.60	1845.20	5.64	6.03	6.00
4-0 to 4-6 . . . . (6/1/75)	47.52	95.04	190.08	380.16	950.40	1900.80	5.69	5.98	6.00
4-6 to 5-0 . . . . (12/1/75)	48.94	97.88	195.76	391.52	978.80	1957.60	5.72	6.01	6.00
5-0 to 5-6 . . . . (6/1/76)	50.41	100.82	201.64	403.28	1008.20	2016.40	5.75	5.99	6.00
5-6 to 6-0 . . . . (12/1/76)	51.92	103.84	207.68	415.36	1038.40	2076.80	5.77	6.01	6.00
6-0 to 6-6 . . . . (6/1/77)	53.48	106.96	213.92	427.84	1069.60	2139.20	5.79	6.02	6.00
6-6 to 7-0 . . . . (12/1/77)	55.09	110.18	220.36	440.72	1101.80	2203.60	5.81	5.99	6.00
7-0 to 7-6 . . . . (6/1/78)	56.74	113.48	226.96	453.92	1134.80	2269.60	5.82	5.99	6.00
7-6 to 8-0 . . . . (12/1/78)	58.44	116.88	233.76	467.52	1168.80	2337.60	5.83	6.02	6.00
8-0 to 8-6 . . . . (6/1/79)	60.20	120.40	240.80	481.60	1204.00	2408.00	5.84	5.98	6.00
8-6 to 9-0 . . . . (12/1/79)	62.00	124.00	248.00	496.00	1240.00	2480.00	5.85	6.00	6.00
9-0 to 9-6 . . . . (6/1/80)	63.86	127.72	255.44	510.88	1277.20	2554.40	5.86	6.01	6.00
9-6 to10-0 . . . . (12/1/80)	65.78	131.56	263.12	526.24	1315.60	2631.20	5.87	5.99	5.99
10-0 2/ . . . . . (6/1/81)	67.75	135.50	271.00	542.00	1355.00	2710.00	5.87 3/	—	—

1/ Month, day, and year on which issues of June 1, 1951, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.33 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 25

BONDS BEARING ISSUE DATES FROM DEC. 1, 1951, THROUGH APRIL 1, 1952

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$ 750.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00			
Period (years and months after first extended maturity at 20 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD						(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
							Percent	Percent	Percent
2-0 to 2-6 . . . 1/(12/1/73)	$42.73	$85.46	$170.92	$341.84	$854.60	$1709.20	5.49	6.04	6.00
2-6 to 3-0 . . . . (6/1/74)	44.02	88.04	176.08	352.16	880.40	1760.80	5.60	6.00	6.00
3-0 to 3-6 . . . . (12/1/74)	45.34	90.68	181.36	362.72	906.80	1813.60	5.67	6.00	6.00
3-6 to 4-0 . . . . (6/1/75)	46.70	93.40	186.80	373.60	934.00	1868.00	5.72	6.00	6.00
4-0 to 4-6 . . . . (12/1/75)	48.10	96.20	192.40	384.80	962.00	1924.00	5.75	5.99	6.00
4-6 to 5-0 . . . . (6/1/76)	49.54	99.08	198.16	396.32	990.80	1981.60	5.78	6.02	6.00
5-0 to 5-6 . . . . (12/1/76)	51.03	102.06	204.12	408.24	1020.60	2041.20	5.80	6.00	6.00
5-6 to 6-0 . . . . (6/1/77)	52.56	105.12	210.24	420.48	1051.20	2102.40	5.82	5.97	6.00
6-0 to 6-6 . . . . (12/1/77)	54.13	108.26	216.52	433.04	1082.60	2165.20	5.83	6.02	6.00
6-6 to 7-0 . . . . (6/1/78)	55.76	111.52	223.04	446.08	1115.20	2230.40	5.85	5.99	6.00
7-0 to 7-6 . . . . (12/1/78)	57.43	114.86	229.72	459.44	1148.60	2297.20	5.86	5.99	6.00
7-6 to 8-0 . . . . (6/1/79)	59.15	118.30	236.60	473.20	1183.00	2366.00	5.87	6.02	6.01
8-0 to 8-6 . . . . (12/1/79)	60.93	121.86	243.72	487.44	1218.60	2437.20	5.88	6.01	6.00
8-6 to 9-0 . . . . (6/1/80)	62.76	125.52	251.04	502.08	1255.20	2510.40	5.88	5.99	6.00
9-0 to 9-6 . . . . (12/1/80)	64.64	129.28	258.56	517.12	1292.80	2585.60	5.89	6.00	6.01
9-6 to10-0 . . . . (6/1/81)	66.58	133.16	266.32	532.64	1331.60	2663.20	5.89	6.01	6.01
10-0 2/ . . . . . (12/1/81)	68.58	137.16	274.32	548.64	1371.60	2743.20	5.90 3/	——	——

1/ Month, day, and year on which issues of Dec. 1, 1951, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 30 years and 0 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.37 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 26

BONDS BEARING ISSUE DATE MAY 1, 1952

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
2-0 to 2-6 . . . 1/(1/1/74)	$42.57	$85.14	$170.28	$340.56	$851.40	$1702.80	$17028	5.50	6.01	6.00
2-6 to 3-0 . . . . (7/1/74)	43.85	87.70	175.40	350.80	877.00	1754.00	17540	5.61	5.97	6.00
3-0 to 3-6 . . . . (1/1/75)	45.16	90.32	180.64	361.28	903.20	1806.40	18064	5.67	6.02	6.00
3-6 to 4-0 . . . . (7/1/75)	46.52	93.04	186.08	372.16	930.40	1860.80	18608	5.72	5.98	6.00
4-0 to 4-6 . . . . (1/1/76)	47.91	95.82	191.64	383.28	958.20	1916.40	19164	5.75	6.01	6.00
4-6 to 5-0 . . . . (7/1/76)	49.35	98.70	197.40	394.80	987.00	1974.00	19740	5.78	6.00	6.00
5-0 to 5-6 . . . . (1/1/77)	50.83	101.66	203.32	406.64	1016.60	2033.20	20332	5.80	5.98	6.00
5-6 to 6-0 . . . . (7/1/77)	52.35	104.70	209.40	418.80	1047.00	2094.00	20940	5.82	6.00	6.00
6-0 to 6-6 . . . . (1/1/78)	53.92	107.84	215.68	431.36	1078.40	2156.80	21568	5.83	6.01	6.00
6-6 to 7-0 . . . . (7/1/78)	55.54	111.08	222.16	444.32	1110.80	2221.60	22216	5.85	5.98	6.00
7-0 to 7-6 . . . . (1/1/79)	57.20	114.40	228.80	457.60	1144.00	2288.00	22880	5.86	6.01	6.00
7-6 to 8-0 . . . . (7/1/79)	58.92	117.84	235.68	471.36	1178.40	2356.80	23568	5.87	6.01	6.00
8-0 to 8-6 . . . . (1/1/80)	60.69	121.38	242.76	485.52	1213.80	2427.60	24276	5.87	6.00	5.99
8-6 to 9-0 . . . . (7/1/80)	62.51	125.02	250.04	500.08	1250.20	2500.40	25004	5.88	5.98	5.99
9-0 to 9-6 . . . . (1/1/81)	64.38	128.76	257.52	515.04	1287.60	2575.20	25752	5.89	6.00	6.00
9-6 to 10-0 . . . . (7/1/81)	66.31	132.62	265.24	530.48	1326.20	2652.40	26524	5.89	6.00	6.00
10-0 2/ . . . . . (1/1/82)	68.30	136.60	273.20	546.40	1366.00	2732.00	27320	5.90 3/	----	----

1/ Month, day, and year on which issues of May 1, 1952, enter each period.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.41 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 27

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPT. 1, 1952

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
2-0 to 2-6 . . . 1/(2/1/74)	$42.67	$85.34	$170.68	$341.36	$853.40	$1706.80	$17068	5.50	6.00	6.00
2-6 to 3-0 . . . . (8/1/74)	43.95	87.90	175.80	351.60	879.00	1758.00	17580	5.60	6.01	6.00
3-0 to 3-6 . . . . (2/1/75)	45.27	90.54	181.08	362.16	905.40	1810.80	18108	5.67	6.01	6.00
3-6 to 4-0 . . . . (8/1/75)	46.63	93.26	186.52	373.04	932.60	1865.20	18652	5.72	5.96	6.00
4-0 to 4-6 . . . . (2/1/76)	48.02	96.04	192.08	384.16	960.40	1920.80	19208	5.75	6.04	6.00
4-6 to 5-0 . . . . (8/1/76)	49.47	98.94	197.88	395.76	989.40	1978.80	19788	5.78	5.98	6.00
5-0 to 5-6 . . . . (2/1/77)	50.95	101.90	203.80	407.60	1019.00	2038.00	20380	5.80	6.01	6.00
5-6 to 6-0 . . . . (8/1/77)	52.48	104.96	209.92	419.84	1049.60	2099.20	20992	5.82	5.98	6.00
6-0 to 6-6 . . . . (2/1/78)	54.05	108.10	216.20	432.40	1081.00	2162.00	21620	5.83	5.99	6.00
6-6 to 7-0 . . . . (8/1/78)	55.67	111.34	222.68	445.36	1113.40	2226.80	22268	5.85	6.04	6.00
7-0 to 7-6 . . . . (2/1/79)	57.35	114.70	229.40	458.80	1147.00	2294.00	22940	5.86	5.96	6.00
7-6 to 8-0 . . . . (8/1/79)	59.06	118.12	236.24	472.48	1181.20	2362.40	23624	5.87	6.03	6.00
8-0 to 8-6 . . . . (2/1/80)	60.84	121.68	243.36	486.72	1216.80	2433.60	24336	5.88	5.98	6.00
8-6 to 9-0 . . . . (8/1/80)	62.66	125.32	250.64	501.28	1253.20	2506.40	25064	5.88	6.00	6.00
9-0 to 9-6 . . . . (2/1/81)	64.54	129.08	258.16	516.32	1290.80	2581.60	25816	5.89	6.01	6.00
9-6 to10-0 . . . . (8/1/81)	66.48	132.96	265.92	531.84	1329.60	2659.20	26592	5.90	5.99	5.99
10-0 2/ . . . . . (2/1/82)	68.47	136.94	273.88	547.76	1369.40	2738.80	27388	5.90 3/	----	----

1/ Month, day, and year on which issues of June 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.41 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 28

BONDS BEARING ISSUE DATE OCT. 1 OR NOV. 1, 1952

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
1-6 to 2-0 . . . 1/(12/1/73)	$41.84	$83.68	$167.36	$334.72	$836.80	$1673.60	$16736	5.50	5.98	6.00
2-0 to 2-6 . . . . (6/1/74)	43.09	86.18	172.36	344.72	861.80	1723.60	17236	5.62	6.03	6.00
2-6 to 3-0 . . . . (12/1/74)	44.39	88.78	177.56	355.12	887.80	1775.60	17756	5.70	5.99	6.00
3-0 to 3-6 . . . . (6/1/75)	45.72	91.44	182.88	365.76	914.40	1828.80	18288	5.75	6.04	6.00
3-6 to 4-0 . . . . (12/1/75)	47.10	94.20	188.40	376.80	942.00	1884.00	18840	5.79	5.99	6.00
4-0 to 4-6 . . . . (6/1/76)	48.51	97.02	194.04	388.08	970.20	1940.40	19404	5.82	5.98	6.00
4-6 to 5-0 . . . . (12/1/76)	49.96	99.92	199.84	399.68	999.20	1998.40	19984	5.83	6.00	6.00
5-0 to 5-6 . . . . (6/1/77)	51.46	102.92	205.84	411.68	1029.20	2058.40	20584	5.85	5.99	6.00
5-6 to 6-0 . . . . (12/1/77)	53.00	106.00	212.00	424.00	1060.00	2120.00	21200	5.86	6.00	6.00
6-0 to 6-6 . . . . (6/1/78)	54.59	109.18	218.36	436.72	1091.80	2183.60	21836	5.87	6.01	6.00
6-6 to 7-0 . . . . (12/1/78)	56.23	112.46	224.92	449.84	1124.60	2249.20	22492	5.88	6.01	6.00
7-0 to 7-6 . . . . (6/1/79)	57.92	115.84	231.68	463.36	1158.40	2316.80	23168	5.89	5.97	6.00
7-6 to 8-0 . . . . (12/1/79)	59.65	119.30	238.60	477.20	1193.00	2386.00	23860	5.90	6.00	6.01
8-0 to 8-6 . . . . (6/1/80)	61.44	122.88	245.76	491.52	1228.80	2457.60	24576	5.91	6.02	6.01
8-6 to 9-0 . . . . (12/1/80)	63.29	126.58	253.16	506.32	1265.80	2531.60	25316	5.91	5.97	6.00
9-0 to 9-6 . . . . (6/1/81)	65.18	130.36	260.72	521.44	1303.60	2607.20	26072	5.92	6.01	6.02
9-6 to10-0 . . . . (12/1/81)	67.14	134.28	268.56	537.12	1342.80	2685.60	26856	5.92	6.02	6.02
10-0 2/ . . . . . (6/1/82)	69.16	138.32	276.64	553.28	1383.20	2766.40	27664	5.93 3/	----	----

1/ Month, day, and year on which issues of Oct. 1, 1952, enter each period. For issues of Nov. 1, 1952, add 1 month.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.45 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 29

BONDS BEARING ISSUE DATES FROM DEC. 1, 1952, THROUGH MARCH 1, 1953

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
1-6 to 2-0 . . . 1/(2/1/74)	$41.95	$83.90	$167.80	$335.60	$839.00	$1678.00	$16780	5.50	5.96	6.00
2-0 to 2-6 . . . . (8/1/74)	43.20	86.40	172.80	345.60	864.00	1728.00	17280	5.62	6.06	6.00
2-6 to 3-0 . . . . (2/1/75)	44.51	89.02	178.04	356.08	890.20	1780.40	17804	5.71	5.98	6.00
3-0 to 3-6 . . . . (8/1/75)	45.84	91.68	183.36	366.72	916.80	1833.60	18336	5.75	6.02	6.00
3-6 to 4-0 . . . . (2/1/76)	47.22	94.44	188.88	377.76	944.40	1888.80	18888	5.79	5.97	6.00
4-0 to 4-6 . . . . (8/1/76)	48.63	97.26	194.52	389.04	972.60	1945.20	19452	5.81	5.96	6.00
4-6 to 5-0 . . . . (2/1/77)	50.08	100.16	200.32	400.64	1001.60	2003.20	20032	5.83	6.03	6.00
5-0 to 5-6 . . . . (8/1/77)	51.59	103.18	206.36	412.72	1031.80	2063.60	20636	5.85	6.01	6.00
5-6 to 6-0 . . . . (2/1/78)	53.14	106.28	212.56	425.12	1062.80	2125.60	21256	5.86	5.98	6.00
6-0 to 6-6 . . . . (8/1/78)	54.73	109.46	218.92	437.84	1094.60	2189.20	21892	5.87	5.99	6.00
6-6 to 7-0 . . . . (2/1/79)	56.37	112.74	225.48	450.96	1127.40	2254.80	22548	5.88	6.03	6.01
7-0 to 7-6 . . . . (8/1/79)	58.07	116.14	232.28	464.56	1161.40	2322.80	23228	5.89	5.99	6.00
7-6 to 8-0 . . . . (2/1/80)	59.81	119.62	239.24	478.48	1196.20	2392.40	23924	5.90	6.02	6.00
8-0 to 8-6 . . . . (8/1/80)	61.61	123.22	246.44	492.88	1232.20	2464.40	24644	5.91	5.97	6.00
8-6 to 9-0 . . . . (2/1/81)	63.45	126.90	253.80	507.60	1269.00	2538.00	25380	5.91	6.02	6.01
9-0 to 9-6 . . . . (8/1/81)	65.36	130.72	261.44	522.88	1307.20	2614.40	26144	5.92	6.00	6.00
9-6 to10-0 . . . . (2/1/82)	67.32	134.64	269.28	538.56	1346.40	2692.80	26928	5.92	6.00	6.00
10-0 2/ . . . . . (8/1/82)	69.34	138.68	277.36	554.72	1386.80	2773.60	27736	5.93 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.46 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 30

BONDS BEARING ISSUE DATE APRIL 1 OR MAY 1, 1953

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
1-0 to 1-6 . . . 1/(12/1/73)	$41.13	$82.26	$164.52	$329.04	$822.60	$1645.20	$16452	5.49	5.98	6.00
1-6 to 2-0 . . . . (6/1/74)	42.36	84.72	169.44	338.88	847.20	1694.40	16944	5.66	6.04	6.00
2-0 to 2-6 . . . . (12/1/74)	43.64	87.28	174.56	349.12	872.80	1745.60	17456	5.75	6.00	6.00
2-6 to 3-0 . . . . (6/1/75)	44.95	89.90	179.80	359.60	899.00	1798.00	17980	5.80	6.01	6.00
3-0 to 3-6 . . . . (12/1/75)	46.30	92.60	185.20	370.40	926.00	1852.00	18520	5.84	6.00	6.00
3-6 to 4-0 . . . . (6/1/76)	47.69	95.38	190.76	381.52	953.80	1907.60	19076	5.86	5.96	6.00
4-0 to 4-6 . . . . (12/1/76)	49.11	98.22	196.44	392.88	982.20	1964.40	19644	5.87	5.99	6.00
4-6 to 5-0 . . . . (6/1/77)	50.58	101.16	202.32	404.64	1011.60	2023.20	20232	5.89	6.01	6.00
5-0 to 5-6 . . . . (12/1/77)	52.10	104.20	208.40	416.80	1042.00	2084.00	20840	5.90	6.03	6.00
5-6 to 6-0 . . . . (6/1/78)	53.67	107.34	214.68	429.36	1073.40	2146.80	21468	5.91	6.00	6.00
6-0 to 6-6 . . . . (12/1/78)	55.28	110.56	221.12	442.24	1105.60	2211.20	22112	5.92	5.97	6.00
6-6 to 7-0 . . . . (6/1/79)	56.93	113.86	227.72	455.44	1138.60	2277.20	22772	5.92	6.04	6.01
7-0 to 7-6 . . . . (12/1/79)	58.65	117.30	234.60	469.20	1173.00	2346.00	23460	5.93	6.00	6.00
7-6 to 8-0 . . . . (6/1/80)	60.41	120.82	241.64	483.28	1208.20	2416.40	24164	5.93	5.99	6.00
8-0 to 8-6 . . . . (12/1/80)	62.22	124.44	248.88	497.76	1244.40	2488.80	24888	5.94	5.98	6.00
8-6 to 9-0 . . . . (6/1/81)	64.08	128.16	256.32	512.64	1281.60	2563.20	25632	5.94	6.02	6.01
9-0 to 9-6 . . . . (12/1/81)	66.01	132.02	264.04	528.08	1320.20	2640.40	26404	5.95	5.97	6.00
9-6 to 10-0 . . . . (6/1/82)	67.98	135.96	271.92	543.84	1359.60	2719.20	27192	5.95	6.03	6.03
10-0 2/ . . . . . (12/1/82)	70.03	140.06	280.12	560.24	1400.60	2801.20	28012	5.95 3/	----	----

1/ Month, day, and year on which issues of April 1, 1953, enter each period. For issues of May 1, 1953, add 1 month.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.49 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

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TABLE 31

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPT. 1, 1953

Issue price		$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination		25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)		(1) Redemption values during each half-year period (values increase on first day of period)* — SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
									Percent	Percent	Percent
1-0 to 1-6 . . . 1/	(2/1/74)	$41.23	$82.46	$164.92	$329.84	$824.60	$1649.20	$16492	5.51	5.97	6.00
1-6 to 2-0	(8/1/74)	42.46	84.92	169.84	339.68	849.20	1698.40	16984	5.66	6.03	6.00
2-0 to 2-6	(2/1/75)	43.74	87.48	174.96	349.92	874.80	1749.60	17496	5.75	5.99	6.00
2-6 to 3-0	(8/1/75)	45.05	90.10	180.20	360.40	901.00	1802.00	18020	5.80	5.99	6.00
3-0 to 3-6	(2/1/76)	46.40	92.80	185.60	371.20	928.00	1856.00	18560	5.83	6.03	6.00
3-6 to 4-0	(8/1/76)	47.80	95.60	191.20	382.40	956.00	1912.00	19120	5.86	5.94	6.00
4-0 to 4-6	(2/1/77)	49.22	98.44	196.88	393.76	984.40	1968.80	19688	5.87	6.05	6.00
4-6 to 5-0	(8/1/77)	50.71	101.42	202.84	405.68	1014.20	2028.40	20284	5.89	5.99	6.00
5-0 to 5-6	(2/1/78)	52.23	104.46	208.92	417.84	1044.60	2089.20	20892	5.90	5.97	6.00
5-6 to 6-0	(8/1/78)	53.79	107.58	215.16	430.32	1075.80	2151.60	21516	5.91	6.02	6.00
6-0 to 6-6	(2/1/79)	55.41	110.82	221.64	443.28	1108.20	2216.40	22164	5.92	5.99	6.00
6-6 to 7-0	(8/1/79)	57.07	114.14	228.28	456.56	1141.40	2282.80	22828	5.92	5.99	6.00
7-0 to 7-6	(2/1/80)	58.78	117.56	235.12	470.24	1175.60	2351.20	23512	5.93	5.99	6.00
7-6 to 8-0	(8/1/80)	60.54	121.08	242.16	484.32	1210.80	2421.60	24216	5.93	6.01	6.00
8-0 to 8-6	(2/1/81)	62.36	124.72	249.44	498.88	1247.20	2494.40	24944	5.94	6.00	6.00
8-6 to 9-0	(8/1/81)	64.23	128.46	256.92	513.84	1284.60	2569.20	25692	5.94	5.98	5.99
9-0 to 9-6	(2/1/82)	66.15	132.30	264.60	529.20	1323.00	2646.00	26460	5.94	6.02	6.00
9-6 to10-0	(8/1/82)	68.14	136.28	272.56	545.12	1362.80	2725.60	27256	5.95	5.99	5.99
10-0 2/	(2/1/83)	70.18	140.36	280.72	561.44	1403.60	2807.20	28072	5.95 3/	----	----

1/ Month, day, and year on which issues of June 1, 1953, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.50 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 32

BONDS BEARING ISSUE DATE OCT. 1 OR NOV. 1, 1953

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
0-6 to 1-0 . . . 1/(12/1/73)	$40.43	$80.86	$161.72	$323.44	$808.60	$1617.20	$16172	5.49	5.99	6.00
1-0 to 1-6 . . . . (6/1/74)	41.64	83.28	166.56	333.12	832.80	1665.60	16656	5.74	6.05	6.00
1-6 to 2-0 . . . . (12/1/74)	42.90	85.80	171.60	343.20	858.00	1716.00	17160	5.84	5.97	6.00
2-0 to 2-6 . . . . (6/1/75)	44.18	88.36	176.72	353.44	883.60	1767.20	17672	5.87	6.02	6.00
2-6 to 3-0 . . . . (12/1/75)	45.51	91.02	182.04	364.08	910.20	1820.40	18204	5.90	6.02	6.00
3-0 to 3-6 . . . . (6/1/76)	46.88	93.76	187.52	375.04	937.60	1875.20	18752	5.92	5.97	6.00
3-6 to 4-0 . . . . (12/1/76)	48.28	96.56	193.12	386.24	965.60	1931.20	19312	5.93	6.01	6.00
4-0 to 4-6 . . . . (6/1/77)	49.73	99.46	198.92	397.84	994.60	1989.20	19892	5.94	5.99	6.00
4-6 to 5-0 . . . . (12/1/77)	51.22	102.44	204.88	409.76	1024.40	2048.80	20488	5.95	5.97	6.00
5-0 to 5-6 . . . . (6/1/78)	52.75	105.50	211.00	422.00	1055.00	2110.00	21100	5.95	5.99	6.00
5-6 to 6-0 . . . . (12/1/78)	54.33	108.66	217.32	434.64	1086.60	2173.20	21732	5.95	6.04	6.00
6-0 to 6-6 . . . . (6/1/79)	55.97	111.94	223.88	447.76	1119.40	2238.80	22388	5.96	6.00	6.00
6-6 to 7-0 . . . . (12/1/79)	57.65	115.30	230.60	461.20	1153.00	2306.00	23060	5.96	6.00	6.00
7-0 to 7-6 . . . . (6/1/80)	59.38	118.76	237.52	475.04	1187.60	2375.20	23752	5.97	6.00	6.00
7-6 to 8-0 . . . . (12/1/80)	61.16	122.32	244.64	489.28	1223.20	2446.40	24464	5.97	5.98	6.00
8-0 to 8-6 . . . . (6/1/81)	62.99	125.98	251.96	503.92	1259.80	2519.60	25196	5.97	6.00	6.00
8-6 to 9-0 . . . . (12/1/81)	64.88	129.76	259.52	519.04	1297.60	2595.20	25952	5.97	5.98	6.00
9-0 to 9-6 . . . . (6/1/82)	66.82	133.64	267.28	534.56	1336.40	2672.80	26728	5.97	6.05	6.02
9-6 to 10-0 . . . . (12/1/82)	68.84	137.68	275.36	550.72	1376.80	2753.60	27536	5.97	5.98	5.98
10-0 2/ . . . . . (6/1/83)	70.90	141.80	283.60	567.20	1418.00	2836.00	28360	5.98 3/	---	---

1/ Month, day, and year on which issues of Oct. 1, 1953, enter each period. For issues of Nov. 1, 1953, add 1 month.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.53 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 33

BONDS BEARING ISSUE DATES FROM DEC. 1, 1953, THROUGH MARCH 1, 1954

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* SECOND EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
0-6 to 1-0 . . . 1/(2/1/74)	$40.55	$81.10	$162.20	$324.40	$811.00	$1622.00	$16220	5.52	5.97	6.00
1-0 to 1-6 . . . . (8/1/74)	41.76	83.52	167.04	334.08	835.20	1670.40	16704	5.75	6.03	6.00
1-6 to 2-0 . . . . (2/1/75)	43.02	86.04	172.08	344.16	860.40	1720.80	17208	5.84	5.95	6.00
2-0 to 2-6 . . . . (8/1/75)	44.30	88.60	177.20	354.40	886.00	1772.00	17720	5.87	6.00	6.00
2-6 to 3-0 . . . . (2/1/76)	45.63	91.26	182.52	365.04	912.60	1825.20	18252	5.90	6.05	6.00
3-0 to 3-6 . . . . (8/1/76)	47.01	94.02	188.04	376.08	940.20	1880.40	18804	5.92	5.96	6.00
3-6 to 4-0 . . . . (2/1/77)	48.41	96.82	193.64	387.28	968.20	1936.40	19364	5.93	5.99	6.00
4-0 to 4-6 . . . . (8/1/77)	49.86	99.72	199.44	398.88	997.20	1994.40	19944	5.93	6.02	6.00
4-6 to 5-0 . . . . (2/1/78)	51.36	102.72	205.44	410.88	1027.20	2054.40	20544	5.94	6.00	6.00
5-0 to 5-6 . . . . (8/1/78)	52.90	105.80	211.60	423.20	1058.00	2116.00	21160	5.95	6.01	6.00
5-6 to 6-0 . . . . (2/1/79)	54.49	108.98	217.96	435.92	1089.80	2179.60	21796	5.95	5.98	6.00
6-0 to 6-6 . . . . (8/1/79)	56.12	112.24	224.48	448.96	1122.40	2244.80	22448	5.96	6.02	6.00
6-6 to 7-0 . . . . (2/1/80)	57.81	115.62	231.24	462.48	1156.20	2312.40	23124	5.96	5.99	6.00
7-0 to 7-6 . . . . (8/1/80)	59.54	119.08	238.16	476.32	1190.80	2381.60	23816	5.96	6.01	6.00
7-6 to 8-0 . . . . (2/1/81)	61.33	122.66	245.32	490.64	1226.60	2453.20	24532	5.97	6.00	6.00
8-0 to 8-6 . . . . (8/1/81)	63.17	126.34	252.68	505.36	1263.40	2526.80	25268	5.97	5.98	6.00
8-6 to 9-0 . . . . (2/1/82)	65.06	130.12	260.24	520.48	1301.20	2602.40	26024	5.97	5.99	6.01
9-0 to 9-6 . . . . (8/1/82)	67.01	134.02	268.04	536.08	1340.20	2680.40	26804	5.97	6.00	6.01
9-6 to 10-0 . . . . (2/1/83)	69.02	138.04	276.08	552.16	1380.40	2760.80	27608	5.97	6.03	6.03
10-0 2/ . . . . . (8/1/83)	71.10	142.20	284.40	568.80	1422.00	2844.00	28440	5.98 3/	---	---

1/ Month, day, and year on which issues of Dec. 1, 1953, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.54 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 34

BONDS BEARING ISSUE DATE APRIL 1 OR MAY 1, 1954

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period) SECOND EXTENDED MATURITY PERIOD **							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
0-0 to 0-6 . . . 1/(12/1/73)	$39.77	$79.54	$159.08	$318.16	$795.40	$1590.80	$15908	----	5.98	6.00
0-6 to 1-0 . . . . (6/1/74)	40.96	81.92	163.84	327.68	819.20	1638.40	16384	5.98	6.01	6.00
1-0 to 1-6 . . . . (12/1/74)	42.19	84.38	168.76	337.52	843.80	1687.60	16876	6.00	6.02	6.00
1-6 to 2-0 . . . . (6/1/75)	43.46	86.92	173.84	347.68	869.20	1738.40	17384	6.00	5.98	6.00
2-0 to 2-6 . . . . (12/1/75)	44.76	89.52	179.04	358.08	895.20	1790.40	17904	6.00	5.99	6.00
2-6 to 3-0 . . . . (6/1/76)	46.10	92.20	184.40	368.80	922.00	1844.00	18440	6.00	6.03	6.00
3-0 to 3-6 . . . . (12/1/76)	47.49	94.98	189.96	379.92	949.80	1899.60	18996	6.00	5.98	6.00
3-6 to 4-0 . . . . (6/1/77)	48.91	97.82	195.64	391.28	978.20	1956.40	19564	6.00	6.01	6.00
4-0 to 4-6 . . . . (12/1/77)	50.38	100.76	201.52	403.04	1007.60	2015.20	20152	6.00	5.99	6.00
4-6 to 5-0 . . . . (6/1/78)	51.89	103.78	207.56	415.12	1037.80	2075.60	20756	6.00	6.01	6.00
5-0 to 5-6 . . . . (12/1/78)	53.45	106.90	213.80	427.60	1069.00	2138.00	21380	6.00	5.99	6.00
5-6 to 6-0 . . . . (6/1/79)	55.05	110.10	220.20	440.40	1101.00	2202.00	22020	6.00	5.99	6.00
6-0 to 6-6 . . . . (12/1/79)	56.70	113.40	226.80	453.60	1134.00	2268.00	22680	6.00	6.00	6.00
6-6 to 7-0 . . . . (6/1/80)	58.40	116.80	233.60	467.20	1168.00	2336.00	23360	6.00	6.03	6.00
7-0 to 7-6 . . . . (12/1/80)	60.16	120.32	240.64	481.28	1203.20	2406.40	24064	6.00	5.98	6.00
7-6 to 8-0 . . . . (6/1/81)	61.96	123.92	247.84	495.68	1239.20	2478.40	24784	6.00	6.00	6.00
8-0 to 8-6 . . . . (12/1/81)	63.82	127.64	255.28	510.56	1276.40	2552.80	25528	6.00	5.99	6.00
8-6 to 9-0 . . . . (6/1/82)	65.73	131.46	262.92	525.84	1314.60	2629.20	26292	6.00	6.02	6.00
9-0 to 9-6 . . . . (12/1/82)	67.71	135.42	270.84	541.68	1354.20	2708.40	27084	6.00	6.00	5.99
9-6 to 10-0 . . . . (6/1/83)	69.74	139.48	278.96	557.92	1394.80	2789.60	27896	6.00	5.99	5.99
10-0 2/ . . . . . (12/1/83)	71.83	143.66	287.32	574.64	1436.60	2873.20	28732	6.00 3/	---	---

1/ Month, day, and year on which issues of April 1, 1954, enter each period. For issues of May 1, 1954, add 1 month.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.58 percent.

** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 35

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPT. 1, 1954

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after first extended maturity at 19 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period) SECOND EXTENDED MATURITY PERIOD**							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to 2nd extended maturity
								Percent	Percent	Percent
0-0 to 0-6 . . . 1/(2/1/74)	$39.87	$79.74	$159.48	$318.96	$797.40	$1594.80	$15948	----	6.02	6.00
0-6 to 1-0 . . . . (8/1/74)	41.07	82.14	164.28	328.56	821.40	1642.80	16428	6.02	5.99	6.00
1-0 to 1-6 . . . . (2/1/75)	42.30	84.60	169.20	338.40	846.00	1692.00	16920	6.00	6.00	6.00
1-6 to 2-0 . . . . (8/1/75)	43.57	87.14	174.28	348.56	871.40	1742.80	17428	6.00	5.97	6.00
2-0 to 2-6 . . . . (2/1/76)	44.87	89.74	179.48	358.96	897.40	1794.80	17948	6.00	6.02	6.00
2-6 to 3-0 . . . . (8/1/76)	46.22	92.44	184.88	369.76	924.40	1848.80	18488	6.00	6.01	6.00
3-0 to 3-6 . . . . (2/1/77)	47.61	95.22	190.44	380.88	952.20	1904.40	19044	6.00	6.01	6.00
3-6 to 4-0 . . . . (8/1/77)	49.04	98.08	196.16	392.32	980.80	1961.60	19616	6.00	6.00	6.00
4-0 to 4-6 . . . . (2/1/78)	50.51	101.02	202.04	404.08	1010.20	2020.40	20204	6.00	5.98	6.00
4-6 to 5-0 . . . . (8/1/78)	52.02	104.04	208.08	416.16	1040.40	2080.80	20808	6.00	6.00	6.00
5-0 to 5-6 . . . . (2/1/79)	53.58	107.16	214.32	428.64	1071.60	2143.20	21432	6.00	6.01	6.00
5-6 to 6-0 . . . . (8/1/79)	55.19	110.38	220.76	441.52	1103.80	2207.60	22076	6.00	6.02	6.00
6-0 to 6-6 . . . . (2/1/80)	56.85	113.70	227.40	454.80	1137.00	2274.00	22740	6.00	5.98	6.00
6-6 to 7-0 . . . . (8/1/80)	58.55	117.10	234.20	468.40	1171.00	2342.00	23420	6.00	6.01	6.00
7-0 to 7-6 . . . . (2/1/81)	60.31	120.62	241.24	482.48	1206.20	2412.40	24124	6.00	6.00	6.00
7-6 to 8-0 . . . . (8/1/81)	62.12	124.24	248.48	496.96	1242.40	2484.80	24848	6.00	5.99	6.00
8-0 to 8-6 . . . . (2/1/82)	63.98	127.96	255.92	511.84	1279.60	2559.20	25592	6.00	6.00	6.00
8-6 to 9-0 . . . . (8/1/82)	65.90	131.80	263.60	527.20	1318.00	2636.00	26360	6.00	6.01	6.00
9-0 to 9-6 . . . . (2/1/83)	67.88	135.76	271.52	543.04	1357.60	2715.20	27152	6.00	5.98	5.99
9-6 to10-0 . . . . (8/1/83)	69.91	139.82	279.64	559.28	1398.20	2796.40	27964	6.00	6.01	6.01
10-0 2/ . . . . . (2/1/84)	72.01	144.02	288.04	576.08	1440.20	2880.40	28804	6.00 3/	----	----

1/ Month, day, and year on which issues of June 1, 1954, enter each period. For subsequent issue months add the appropriate number of months.
2/ Second extended maturity value reached at 29 years and 8 months after issue.
3/ Yield on purchase price from issue date to second extended maturity date is 4.59 percent.

** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 36

BONDS BEARING ISSUE DATE OCT. 1 OR NOV. 1, 1954

Issue price / Denomination								Approximate investment yield (annual percentage rate)		
Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500			
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* FIRST EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. (a) to 1st extended maturity
								Percent	Percent	Percent
9-6 to 10-0 . . . 1/(12/1/73)	$38.80	$77.60	$155.20	$310.40	$776.00	$1552.00	$15520	4.43	7.78	7.78
10-0 2/ . . . . . (6/1/74)	40.31	80.62	161.24	322.48	806.20	1612.40	16124	4.60 3/	----	----
(years and months after 1st extended maturity date)	SECOND EXTENDED MATURITY PERIOD**									(b) to 2nd extended maturity
0-0 to 0-6 . . . . (6/1/74)	$40.31	$80.62	$161.24	$322.48	$806.20	$1612.40	$16124	----	6.00	6.00
0-6 to 1-0 . . . . (12/1/74)	41.52	83.04	166.08	332.16	830.40	1660.80	16608	6.00	5.97	6.00
1-0 to 1-6 . . . . (6/1/75)	42.76	85.52	171.04	342.08	855.20	1710.40	17104	5.99	6.03	6.00
1-6 to 2-0 . . . . (12/1/75)	44.05	88.10	176.20	352.40	881.00	1762.00	17620	6.00	5.99	6.00
2-0 to 2-6 . . . . (6/1/76)	45.37	90.74	181.48	362.96	907.40	1814.80	18148	6.00	6.00	6.00
2-6 to 3-0 . . . . (12/1/76)	46.73	93.46	186.92	373.84	934.60	1869.20	18692	6.00	5.99	6.00
3-0 to 3-6 . . . . (6/1/77)	48.13	96.26	192.52	385.04	962.60	1925.20	19252	6.00	6.03	6.00
3-6 to 4-0 . . . . (12/1/77)	49.58	99.16	198.32	396.64	991.60	1983.20	19832	6.00	5.97	6.00
4-0 to 4-6 . . . . (6/1/78)	51.06	102.12	204.24	408.48	1021.20	2042.40	20424	6.00	6.03	6.00
4-6 to 5-0 . . . . (12/1/78)	52.60	105.20	210.40	420.80	1052.00	2104.00	21040	6.00	5.97	6.00
5-0 to 5-6 . . . . (6/1/79)	54.17	108.34	216.68	433.36	1083.40	2166.80	21668	6.00	6.02	6.00
5-6 to 6-0 . . . . (12/1/79)	55.80	111.60	223.20	446.40	1116.00	2232.00	22320	6.00	5.99	6.00
6-0 to 6-6 . . . . (6/1/80)	57.47	114.94	229.88	459.76	1149.40	2298.80	22988	6.00	6.02	6.00
6-6 to 7-0 . . . . (12/1/80)	59.20	118.40	236.80	473.60	1184.00	2368.00	23680	6.00	5.98	6.00
7-0 to 7-6 . . . . (6/1/81)	60.97	121.94	243.88	487.76	1219.40	2438.80	24388	6.00	6.00	6.00
7-6 to 8-0 . . . . (12/1/81)	62.80	125.60	251.20	502.40	1256.00	2512.00	25120	6.00	6.02	6.00
8-0 to 8-6 . . . . (6/1/82)	64.69	129.38	258.76	517.52	1293.80	2587.60	25876	6.00	6.00	5.99
8-6 to 9-0 . . . . (12/1/82)	66.63	133.26	266.52	533.04	1332.60	2665.20	26652	6.00	6.00	5.99
9-0 to 9-6 . . . . (6/1/83)	68.63	137.26	274.52	549.04	1372.60	2745.20	27452	6.00	5.97	5.99
9-6 to 10-0 . . . . (12/1/83)	70.68	141.36	282.72	565.44	1413.60	2827.20	28272	6.00	6.00	6.00
10-0 4/ . . . . . (6/1/84)	72.80	145.60	291.20	582.40	1456.00	2912.00	29120	6.00 3/	----	----

1/ Month, day, and year on which issues of Oct. 1, 1954, enter each period. For issues of Nov. 1, 1954, add 1 month.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to 1st extended maturity date is 3.93 percent; to 2nd extended maturity date is 4.63 percent.
4/ Second extended maturity value reached at 29 years and 8 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 37

BONDS BEARING ISSUE DATES FROM DEC. 1, 1954, THROUGH MARCH 1, 1955

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* FIRST EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. (a) to 1st extended maturity
								Percent	Percent	Percent
9-6 to10-0 . . . 1/(2/1/74)	$38.87	$77.74	$155.48	$310.96	$777.40	$1554.80	$15548	4.43	7.87	7.87
10-0 2/ . . . . . (8/1/74)	40.40	80.80	161.60	323.20	808.00	1616.00	16160	4.60 3/	----	----
(years and months after 1st extended maturity date)	SECOND EXTENDED MATURITY PERIOD**									(b) to 2nd extended maturity
0-0 to 0-6 . . . . (8/1/74)	$40.40	$80.80	$161.60	$323.20	$808.00	$1616.00	$16160	----	5.99	6.00
0-6 to 1-0 . . . . (2/1/75)	41.61	83.22	166.44	332.88	832.20	1664.40	16644	5.99	6.01	6.00
1-0 to 1-6 . . . . (8/1/75)	42.86	85.72	171.44	342.88	857.20	1714.40	17144	6.00	6.02	6.00
1-6 to 2-0 . . . . (2/1/76)	44.15	88.30	176.60	353.20	883.00	1766.00	17660	6.01	5.98	6.00
2-0 to 2-6 . . . . (8/1/76)	45.47	90.94	181.88	363.76	909.40	1818.80	18188	6.00	5.98	6.00
2-6 to 3-0 . . . . (2/1/77)	46.83	93.66	187.32	374.64	936.60	1873.20	18732	6.00	6.02	6.00
3-0 to 3-6 . . . . (8/1/77)	48.24	96.48	192.96	385.92	964.80	1929.60	19296	6.00	6.01	6.00
3-6 to 4-0 . . . . (2/1/78)	49.69	99.38	198.76	397.52	993.80	1987.60	19876	6.00	6.00	6.00
4-0 to 4-6 . . . . (8/1/78)	51.18	102.36	204.72	409.44	1023.60	2047.20	20472	6.00	5.98	6.00
4-6 to 5-0 . . . . (2/1/79)	52.71	105.42	210.84	421.68	1054.20	2108.40	21084	6.00	6.00	6.00
5-0 to 5-6 . . . . (8/1/79)	54.29	108.58	217.16	434.32	1085.80	2171.60	21716	6.00	6.00	6.00
5-6 to 6-0 . . . . (2/1/80)	55.92	111.84	223.68	447.36	1118.40	2236.80	22368	6.00	6.01	6.00
6-0 to 6-6 . . . . (8/1/80)	57.60	115.20	230.40	460.80	1152.00	2304.00	23040	6.00	6.01	6.00
6-6 to 7-0 . . . . (2/1/81)	59.33	118.66	237.32	474.64	1186.60	2373.20	23732	6.00	6.00	6.00
7-0 to 7-6 . . . . (8/1/81)	61.11	122.22	244.44	488.88	1222.20	2444.40	24444	6.00	5.99	6.00
7-6 to 8-0 . . . . (2/1/82)	62.94	125.88	251.76	503.52	1258.80	2517.60	25176	6.00	6.01	6.00
8-0 to 8-6 . . . . (8/1/82)	64.83	129.66	259.32	518.64	1296.60	2593.20	25932	6.00	6.02	6.00
8-6 to 9-0 . . . . (2/1/83)	66.78	133.56	267.12	534.24	1335.60	2671.20	26712	6.00	5.99	6.00
9-0 to 9-6 . . . . (8/1/83)	68.78	137.56	275.12	550.24	1375.60	2751.20	27512	6.00	5.99	6.00
9-6 to10-0 . . . . (2/1/84)	70.84	141.68	283.36	566.72	1416.80	2833.60	28336	6.00	6.01	6.01
10-0 4/ . . . . . (8/1/84)	72.97	145.94	291.88	583.76	1459.40	2918.80	29188	6.00 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1954, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to 1st extended maturity date is 3.94 percent; to 2nd extended maturity date is 4.63 percent.
4/ Second extended maturity value reached at 29 years and 8 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 38

BONDS BEARING ISSUE DATE APRIL 1 OR MAY 1, 1955

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — FIRST EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. (a) to 1st extended maturity
								Percent	Percent	Percent
9-0 to 9-6 . . . 1/(12/1/73)	$38.02	$76.04	$152.08	$304.16	$760.40	$1520.80	$15208	4.43	6.52	7.23
9-6 to10-0 . . . . (6/1/74)	39.26	78.52	157.04	314.08	785.20	1570.40	15704	4.54	7.95	7.95
10-0 2/ . . . . . (12/1/74)	40.82	81.64	163.28	326.56	816.40	1632.80	16328	4.70 3/	----	----
(years and months after 1st extended maturity date)	SECOND EXTENDED MATURITY PERIOD**									(b) to 2nd extended maturity
0-0 to 0-6 . . . . (12/1/74)	$40.82	$81.64	$163.28	$326.56	$816.40	$1632.80	$16328	----	5.98	6.00
0-6 to 1-0 . . . . (6/1/75)	42.04	84.08	168.16	336.32	840.80	1681.60	16816	5.98	6.04	6.00
1-0 to 1-6 . . . . (12/1/75)	43.31	86.62	173.24	346.48	866.20	1732.40	17324	6.01	6.00	6.00
1-6 to 2-0 . . . . (6/1/76)	44.61	89.22	178.44	356.88	892.20	1784.40	17844	6.01	5.96	6.00
2-0 to 2-6 . . . . (12/1/76)	45.94	91.88	183.76	367.52	918.80	1837.60	18376	6.00	6.01	6.00
2-6 to 3-0 . . . . (6/1/77)	47.32	94.64	189.28	378.56	946.40	1892.80	18928	6.00	6.00	6.00
3-0 to 3-6 . . . . (12/1/77)	48.74	97.48	194.96	389.92	974.80	1949.60	19496	6.00	5.99	6.00
3-6 to 4-0 . . . . (6/1/78)	50.20	100.40	200.80	401.60	1004.00	2008.00	20080	6.00	6.02	6.00
4-0 to 4-6 . . . . (12/1/78)	51.71	103.42	206.84	413.68	1034.20	2068.40	20684	6.00	5.99	6.00
4-6 to 5-0 . . . . (6/1/79)	53.26	106.52	213.04	426.08	1065.20	2130.40	21304	6.00	6.01	6.00
5-0 to 5-6 . . . . (12/1/79)	54.86	109.72	219.44	438.88	1097.20	2194.40	21944	6.00	5.98	6.00
5-6 to 6-0 . . . . (6/1/80)	56.50	113.00	226.00	452.00	1130.00	2260.00	22600	6.00	6.02	6.00
6-0 to 6-6 . . . . (12/1/80)	58.20	116.40	232.80	465.60	1164.00	2328.00	23280	6.00	6.01	6.00
6-6 to 7-0 . . . . (6/1/81)	59.95	119.90	239.80	479.60	1199.00	2398.00	23980	6.00	5.97	6.00
7-0 to 7-6 . . . . (12/1/81)	61.74	123.48	246.96	493.92	1234.80	2469.60	24696	6.00	6.03	6.00
7-6 to 8-0 . . . . (6/1/82)	63.60	127.20	254.40	508.80	1272.00	2544.00	25440	6.00	5.97	6.00
8-0 to 8-6 . . . . (12/1/82)	65.50	131.00	262.00	524.00	1310.00	2620.00	26200	6.00	6.02	6.01
8-6 to 9-0 . . . . (6/1/83)	67.47	134.94	269.88	539.76	1349.40	2698.80	26988	6.00	5.99	6.00
9-0 to 9-6 . . . . (12/1/83)	69.49	138.98	277.96	555.92	1389.80	2779.60	27796	6.00	6.02	6.01
9-6 to10-0 . . . . (6/1/84)	71.58	143.16	286.32	572.64	1431.60	2863.20	28632	6.00	6.01	6.01
10-0 4/ . . . . . (12/1/84)	73.73	147.46	294.92	589.84	1474.60	2949.20	29492	6.00 3/	----	----

1/ Month, day, and year on which issues of April 1, 1955, enter each period. For issues of May 1, 1955, add 1 month.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to 1st extended maturity date is 4.00 percent; to 2nd extended maturity date is 4.67 percent.
4/ Second extended maturity value reached at 29 years and 8 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 39

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPT. 1, 1955

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
9-0 to 9-6 . . . 1/(2/1/74)	$38.12	$76.24	$152.48	$304.96	$762.40	$1524.80	$15248	4.42	6.51	7.24
9-6 to10-0 . . . . (8/1/74)	39.36	78.72	157.44	314.88	787.20	1574.40	15744	4.53	7.98	7.98
10-0 2/ . . . . . (2/1/75)	40.93	81.86	163.72	327.44	818.60	1637.20	16372	4.70 3/	----	----

1/ Month, day, and year on which issues of June 1, 1955, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.01 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 40

BONDS BEARING ISSUE DATE OCT. 1 OR NOV. 1, 1955

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
8-6 to 9-0 . . . 1/(12/1/73)	$37.31	$74.62	$149.24	$298.48	$746.20	$1492.40	$14924	4.43	6.38	7.02
9-0 to 9-6 . . . . (6/1/74)	38.50	77.00	154.00	308.00	770.00	1540.00	15400	4.54	6.55	7.35
9-6 to 10-0 . . . . (12/1/74)	39.76	79.52	159.04	318.08	795.20	1590.40	15904	4.64	8.15	8.15
10-0 2/ . . . . . (6/1/75)	41.38	82.76	165.52	331.04	827.60	1655.20	16552	4.82 3/	----	----

1/ Month, day, and year on which issues of Oct. 1, 1955, enter each period. For issues of Nov. 1, 1955, add 1 month.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.07 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 41

BONDS BEARING ISSUE DATES FROM DEC. 1, 1955, THROUGH MARCH 1, 1956

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
8-6 to 9-0 . . . 1/(2/1/74)	$37.39	$74.78	$149.56	$299.12	$747.80	$1495.60	$14956	4.43	6.42	7.04
9-0 to 9-6 . . . . (8/1/74)	38.59	77.18	154.36	308.72	771.80	1543.60	15436	4.54	6.58	7.35
9-6 to10-0 . . . . (2/1/75)	39.86	79.72	159.44	318.88	797.20	1594.40	15944	4.64	8.13	8.13
10-0 2/ . . . . . (8/1/75)	41.48	82.96	165.92	331.84	829.60	1659.20	16592	4.82 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1955, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.08 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 42

BONDS BEARING ISSUE DATE APRIL 1 OR MAY 1, 1956

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
8-0 to 8-6 . . . 1/(12/1/73)	$37.24	$74.48	$148.96	$297.92	$744.80	$1489.60	$14896	4.66	6.18	6.76
8-6 to 9-0 . . . . (6/1/74)	38.39	76.78	153.56	307.12	767.80	1535.60	15356	4.74	6.36	6.96
9-0 to 9-6 . . . . (12/1/74)	39.61	79.22	158.44	316.88	792.20	1584.40	15844	4.83	6.46	7.27
9-6 to10-0 . . . . (6/1/75)	40.89	81.78	163.56	327.12	817.80	1635.60	16356	4.92	8.07	8.07
10-0 2/ . . . . . (12/1/75)	42.54	85.08	170.16	340.32	850.80	1701.60	17016	5.08 3/	---	---

1/ Month, day, and year on which issues of April 1, 1956, enter each period. For issues of May 1, 1956, add 1 month.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.21 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 43

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPT. 1, 1956

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
8-0 to 8-6 . . . 1/(2/1/74)	$37.32	$74.64	$149.28	$298.56	$746.40	$1492.80	$14928	4.65	6.16	6.78
8-6 to 9-0 . . . . (8/1/74)	38.47	76.94	153.88	307.76	769.40	1538.80	15388	4.74	6.39	6.98
9-0 to 9-6 . . . . (2/1/75)	39.70	79.40	158.80	317.60	794.00	1588.00	15880	4.83	6.45	7.27
9-6 to10-0 . . . . (8/1/75)	40.98	81.96	163.92	327.84	819.60	1639.20	16392	4.92	8.10	8.10
10-0 2/ . . . . . (2/1/76)	42.64	85.28	170.56	341.12	852.80	1705.60	17056	5.08 3/	----	----

1/ Month, day, and year on which issues of June 1, 1956, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 10 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.22 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 44

BONDS BEARING ISSUE DATE OCT. 1 OR NOV. 1, 1956

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-6 to 8-0 . . . 1/(12/1/73)	$36.52	$73.04	$146.08	$292.16	$730.40	$1460.80	$14608	4.67	6.13	6.67
8-0 to 8-6 . . . . (6/1/74)	37.64	75.28	150.56	301.12	752.80	1505.60	15056	4.76	6.27	6.80
8-6 to 9-0 . . . . (12/1/74)	38.82	77.64	155.28	310.56	776.40	1552.80	15528	4.85	6.34	6.98
9-0 to 9-6 . . . . (6/1/75)	40.05	80.10	160.20	320.40	801.00	1602.00	16020	4.93	6.49	7.31
9-6 to10-0 . . . . (12/1/75)	41.35	82.70	165.40	330.80	827.00	1654.00	16540	5.01	8.13	8.13
10-0 2/ . . . . . (6/1/76)	43.03	86.06	172.12	344.24	860.60	1721.20	17212	5.17 3/	----	----

1/ Month, day, and year on which issues of Oct. 1, 1956, enter each period. For issues of Nov. 1, 1956, add 1 month.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.27 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 45

BONDS BEARING ISSUE DATE DEC. 1, 1956, or JAN. 1, 1957

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 9 years 8 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-6 to 8-0 . . . 1/(2/1/74)	$36.71	$73.42	$146.84	$293.68	$734.20	$1468.40	$14684	4.67	6.10	6.69
8-0 to 8-6 . . . . (8/1/74)	37.83	75.66	151.32	302.64	756.60	1513.20	15132	4.76	6.29	6.83
8-6 to 9-0 . . . . (2/1/75)	39.02	78.04	156.08	312.16	780.40	1560.80	15608	4.85	6.36	7.01
9-0 to 9-6 . . . . (8/1/75)	40.26	80.52	161.04	322.08	805.20	1610.40	16104	4.93	6.51	7.34
9-6 to10-0 . . . . (2/1/76)	41.57	83.14	166.28	332.56	831.40	1662.80	16628	5.01	8.18	8.18
10-0 2/ . . . . . (8/1/76)	43.27	86.54	173.08	346.16	865.40	1730.80	17308	5.17 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1956, enter each period. For issues of Jan. 1, 1957, add 1 month.
2/ Extended maturity value reached at 19 years and 8 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.30 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 46

BONDS BEARING ISSUE DATES FROM FEB. 1 THROUGH MAY 1, 1957

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
8-0 to 8-6 . . . 1/(1/1/74)	$37.28	$74.56	$149.12	$298.24	$745.60	$1491.20	$14912	4.65	6.17	6.77
8-6 to 9-0 . . . . (7/1/74)	38.43	76.86	153.72	307.44	768.60	1537.20	15372	4.74	6.40	6.97
9-0 to 9-6 . . . . (1/1/75)	39.66	79.32	158.64	317.28	793.20	1586.40	15864	4.83	6.40	7.26
9-6 to10-0 . . . . (7/1/75)	40.93	81.86	163.72	327.44	818.60	1637.20	16372	4.92	8.11	8.11
10-0 2/ . . . . . (1/1/76)	42.59	85.18	170.36	340.72	851.80	1703.60	17036	5.08 3/	----	----

1/ Month, day, and year on which issues of Feb. 1, 1957, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.38 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

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TABLE 47

BONDS BEARING ISSUE DATE JUNE 1, 1957

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
8-0 to 8-6 . . . 1/(5/1/74)	$37.43	$74.86	$149.72	$299.44	$748.60	$1497.20	$14972	4.65	6.20	6.79
8-6 to 9-0 . . . . (11/1/74)	38.59	77.18	154.36	308.72	771.80	1543.60	15436	4.74	6.32	6.99
9-0 to 9-6 . . . . (5/1/75)	39.81	79.62	159.24	318.48	796.20	1592.40	15924	4.83	6.48	7.33
9-6 to10-0 . . . . (11/1/75)	41.10	82.20	164.40	328.80	822.00	1644.00	16440	4.92	8.18	8.18
10-0 2/ . . . . . (5/1/76)	42.78	85.56	171.12	342.24	855.60	1711.20	17112	5.08 3/	----	----

1/ Month, day, and year on which issues of June 1, 1957, enter each period.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.41 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 48

BONDS BEARING ISSUE DATES FROM JULY 1 THROUGH NOV. 1, 1957

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-6 to 8-0 . . . 1/(12/1/73)	$36.62	$73.24	$146.48	$292.96	$732.40	$1464.80	$14648	4.67	6.17	6.68
8-0 to 8-6 . . . . (6/1/74)	37.75	75.50	151.00	302.00	755.00	1510.00	15100	4.76	6.25	6.81
8-6 to 9-0 . . . . (12/1/74)	38.93	77.86	155.72	311.44	778.60	1557.20	15572	4.85	6.32	7.00
9-0 to 9-6 . . . . (6/1/75)	40.16	80.32	160.64	321.28	803.20	1606.40	16064	4.93	6.52	7.34
9-6 to10-0 . . . . (12/1/75)	41.47	82.94	165.88	331.76	829.40	1658.80	16588	5.01	8.15	8.15
10-0 2/ . . . . . (6/1/76)	43.16	86.32	172.64	345.28	863.20	1726.40	17264	5.17 3/	---	---

1/ Month, day, and year on which issues of July 1, 1957, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.46 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 49

BONDS BEARING ISSUE DATE DEC. 1, 1957

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-6 to 8-0 . . . 1/(5/1/74)	$36.78	$73.56	$147.12	$294.24	$735.60	$1471.20	$14712	4.66	6.14	6.68
8-0 to 8-6 . . . . (11/1/74)	37.91	75.82	151.64	303.28	758.20	1516.40	15164	4.76	6.23	6.82
8-6 to 9-0 . . . . (5/1/75)	39.09	78.18	156.36	312.72	781.80	1563.60	15636	4.84	6.29	7.02
9-0 to 9-6 . . . . (11/1/75)	40.32	80.64	161.28	322.56	806.40	1612.80	16128	4.92	6.50	7.38
9-6 to10-0 . . . . (5/1/76)	41.63	83.26	166.52	333.04	832.60	1665.20	16652	5.00	8.26	8.26
10-0 2/ . . . . . (11/1/76)	43.35	86.70	173.40	346.80	867.00	1734.00	17340	5.17 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1957, enter each period.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.40 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 50

BONDS BEARING ISSUE DATES FROM JAN. 1 THROUGH MAY 1, 1958

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-0 to 7-6 . . . 1/(12/1/73)	$35.99	$71.98	$143.96	$287.92	$719.80	$1439.60	$14396	4.68	6.06	6.62
7-6 to 8-0 . . . . (6/1/74)	37.08	74.16	148.32	296.64	741.60	1483.20	14832	4.77	6.31	6.73
8-0 to 8-6 . . . . (12/1/74)	38.25	76.50	153.00	306.00	765.00	1530.00	15300	4.87	6.27	6.83
8-6 to 9-0 . . . . (6/1/75)	39.44	78.88	157.76	315.52	788.80	1577.60	15776	4.95	6.39	7.03
9-0 to 9-6 . . . . (12/1/75)	40.70	81.40	162.80	325.60	814.00	1628.00	16280	5.03	6.49	7.36
9-6 to10-0 . . . . (6/1/76)	42.02	84.04	168.08	336.16	840.40	1680.80	16808	5.11	8.23	8.23
10-0 2/ . . . . . (12/1/76)	43.75	87.50	175.00	350.00	875.00	1750.00	17500	5.26 3/	----	----

1/ Month, day, and year on which issues of Jan. 1, 1958, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.53 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 51

BONDS BEARING ISSUE DATE JUNE 1, 1958

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-0 to 7-6 . . . 1/(5/1/74)	$36.14	$72.28	$144.56	$289.12	$722.80	$1445.60	$14456	4.68	6.09	6.62
7-6 to 8-0 . . . . (11/1/74)	37.24	74.48	148.96	297.92	744.80	1489.60	14896	4.78	6.18	6.73
8-0 to 8-6 . . . . (5/1/75)	38.39	76.78	153.56	307.12	767.80	1535.60	15356	4.86	6.25	6.87
8-6 to 9-0 . . . . (11/1/75)	39.59	79.18	158.36	316.72	791.80	1583.60	15836	4.94	6.31	7.07
9-0 to 9-6 . . . . (5/1/76)	40.84	81.68	163.36	326.72	816.80	1633.60	16336	5.02	6.56	7.45
9-6 to 10-0 . . . . (11/1/76)	42.18	84.36	168.72	337.44	843.60	1687.20	16872	5.10	8.35	8.35
10-0 2/ . . . . . (5/1/77)	43.94	87.88	175.76	351.52	878.80	1757.60	17576	5.26 3/	----	----

1/ Month, day, and year on which issues of June 1, 1958, enter each period.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.55 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 52

BONDS BEARING ISSUE DATES FROM JULY 1 THROUGH NOV. 1, 1958

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-6 to 7-0 . . . 1/(12/1/73)	$35.37	$70.74	$141.48	$282.96	$707.40	$1414.80	$14148	4.71	5.99	6.56
7-0 to 7-6 . . . . (6/1/74)	36.43	72.86	145.72	291.44	728.60	1457.20	14572	4.80	6.09	6.66
7-6 to 8-0 . . . . (12/1/74)	37.54	75.08	150.16	300.32	750.80	1501.60	15016	4.88	6.29	6.77
8-0 to 8-6 . . . . (6/1/75)	38.72	77.44	154.88	309.76	774.40	1548.80	15488	4.97	6.30	6.89
8-6 to 9-0 . . . . (12/1/75)	39.94	79.88	159.76	319.52	798.80	1597.60	15976	5.05	6.36	7.09
9-0 to 9-6 . . . . (6/1/76)	41.21	82.42	164.84	329.68	824.20	1648.40	16484	5.12	6.55	7.46
9-6 to10-0 . . . . (12/1/76)	42.56	85.12	170.24	340.48	851.20	1702.40	17024	5.20	8.36	8.36
10-0 2/ . . . . . (6/1/77)	44.34	88.68	177.36	354.72	886.80	1773.60	17736	5.35 3/	----	----

1/ Month, day, and year on which issues of July 1, 1958, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.60 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 53

BONDS BEARING ISSUE DATE DEC. 1, 1958

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-6 to 7-0 . . . 1/(5/1/74)	$35.52	$71.04	$142.08	$284.16	$710.40	$1420.80	$14208	4.70	6.08	6.57
7-0 to 7-6 . . . . (11/1/74)	36.60	73.20	146.40	292.80	732.00	1464.00	14640	4.80	6.01	6.65
7-6 to 8-0 . . . . (5/1/75)	37.70	75.40	150.80	301.60	754.00	1508.00	15080	4.88	6.26	6.78
8-0 to 8-6 . . . . (11/1/75)	38.88	77.76	155.52	311.04	777.60	1555.20	15552	4.97	6.28	6.91
8-6 to 9-0 . . . . (5/1/76)	40.10	80.20	160.40	320.80	802.00	1604.00	16040	5.04	6.43	7.12
9-0 to 9-6 . . . . (11/1/76)	41.39	82.78	165.56	331.12	827.80	1655.60	16556	5.12	6.38	7.47
9-6 to10-0 . . . . (5/1/77)	42.71	85.42	170.84	341.68	854.20	1708.40	17084	5.19	8.57	8.57
10-0 2/ . . . . . (11/1/77)	44.54	89.08	178.16	356.32	890.80	1781.60	17816	5.35 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1958, enter each period.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.63 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 54

BONDS BEARING ISSUE DATES FROM JAN. 1 THROUGH MAY 1, 1959

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 8 years 11 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-0 to 6-6 . . . 1/(12/1/73)	$34.77	$69.54	$139.08	$278.16	$695.40	$1390.80	$13908	4.73	5.98	6.52
6-6 to 7-0 . . . . (6/1/74)	35.81	71.62	143.24	286.48	716.20	1432.40	14324	4.83	6.09	6.60
7-0 to 7-6 . . . . (12/1/74)	36.90	73.80	147.60	295.20	738.00	1476.00	14760	4.92	6.12	6.69
7-6 to 8-0 . . . . (6/1/75)	38.03	76.06	152.12	304.24	760.60	1521.20	15212	5.00	6.26	6.80
8-0 to 8-6 . . . . (12/1/75)	39.22	78.44	156.88	313.76	784.40	1568.80	15688	5.08	6.27	6.94
8-6 to 9-0 . . . . (6/1/76)	40.45	80.90	161.80	323.60	809.00	1618.00	16180	5.15	6.38	7.16
9-0 to 9-6 . . . . (12/1/76)	41.74	83.48	166.96	333.92	834.80	1669.60	16696	5.22	6.52	7.55
9-6 to10-0 . . . . (6/1/77)	43.10	86.20	172.40	344.80	862.00	1724.00	17240	5.28	8.56	8.58
10-0 2/ . . . . . (12/1/77)	44.95	89.90	179.80	359.60	899.00	1798.00	17980	5.45 3/	---	---

1/ Month, day, and year on which issues of Jan. 1, 1959, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 18 years and 11 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.68 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 55

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1959

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
7-0 to 7-6 . . . 1/(3/1/74)	$34.74	$69.48	$138.96	$277.92	$694.80	$1389.60	$13896	4.68	6.16	6.63
7-6 to 8-0 . . . . (9/1/74)	35.81	71.62	143.24	286.48	716.20	1432.40	14324	4.78	6.14	6.73
8-0 to 8-6 . . . . (3/1/75)	36.91	73.82	147.64	295.28	738.20	1476.40	14764	4.86	6.23	6.87
8-6 to 9-0 . . . . (9/1/75)	38.06	76.12	152.24	304.48	761.20	1522.40	15224	4.94	6.41	7.09
9-0 to 9-6 . . . . (3/1/76)	39.28	78.56	157.12	314.24	785.60	1571.20	15712	5.02	6.42	7.42
9-6 to10-0 . . . . (9/1/76)	40.54	81.08	162.16	324.32	810.80	1621.60	16216	5.10	8.44	8.44
10-0 2/ . . . . . (3/1/77)	42.25	84.50	169.00	338.00	845.00	1690.00	16900	5.26 3/	----	----

1/ Month, day, and year on which issues of June 1, 1959, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.63 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 56

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1959

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-6 to 7-0 . . . 1/(12/1/73)	$34.00	$68.00	$136.00	$272.00	$680.00	$1360.00	$13600	4.71	6.00	6.56
7-0 to 7-6 . . . . (6/1/74)	35.02	70.04	140.08	280.16	700.40	1400.80	14008	4.80	6.17	6.66
7-6 to 8-0 . . . . (12/1/74)	36.10	72.20	144.40	288.80	722.00	1444.00	14440	4.89	6.20	6.75
8-0 to 8-6 . . . . (6/1/75)	37.22	74.44	148.88	297.76	744.40	1488.80	14888	4.97	6.29	6.89
8-6 to 9-0 . . . . (12/1/75)	38.39	76.78	153.56	307.12	767.80	1535.60	15356	5.05	6.41	7.09
9-0 to 9-6 . . . . (6/1/76)	39.62	79.24	158.48	316.96	792.40	1584.80	15848	5.12	6.46	7.43
9-6 to10-0 . . . . (12/1/76)	40.90	81.80	163.60	327.20	818.00	1636.00	16360	5.19	8.41	8.41
10-0 2/ . . . . . (6/1/77)	42.62	85.24	170.48	340.96	852.40	1704.80	17048	5.35 3/	----	----

1/ Month, day, and year on which issues of Sept. 1, 1959, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.68 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 57

BONDS BEARING ISSUE DATES FROM DEC. 1, 1959, THROUGH FEB. 1, 1960

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-6 to 7-0 . . . 1/(3/1/74)	$34.07	$68.14	$136.28	$272.56	$681.40	$1362.80	$13628	4.71	6.05	6.57
7-0 to 7-6 . . . . (9/1/74)	35.10	70.20	140.40	280.80	702.00	1404.00	14040	4.80	6.04	6.66
7-6 to 8-0 . . . . (3/1/75)	36.16	72.32	144.64	289.28	723.20	1446.40	14464	4.88	6.19	6.78
8-0 to 8-6 . . . . (9/1/75)	37.28	74.56	149.12	298.24	745.60	1491.20	14912	4.97	6.33	6.93
8-6 to 9-0 . . . . (3/1/76)	38.46	76.92	153.84	307.68	769.20	1538.40	15384	5.05	6.34	7.13
9-0 to 9-6 . . . . (9/1/76)	39.68	79.36	158.72	317.44	793.60	1587.20	15872	5.12	6.50	7.52
9-6 to10-0 . . . . (3/1/77)	40.97	81.94	163.88	327.76	819.40	1638.80	16388	5.19	8.54	8.54
10-0 2/ . . . . . (9/1/77)	42.72	85.44	170.88	341.76	854.40	1708.80	17088	5.36 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1959, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.69 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 58

BONDS BEARING ISSUE DATES FROM MARCH 1 THROUGH MAY 1, 1960

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-0 to 6-6 . . . 1/(12/1/73)	$33.34	$66.68	$133.36	$266.72	$666.80	$1333.60	$13336	4.73	5.94	6.52
6-6 to 7-0 . . . . (6/1/74)	34.33	68.66	137.32	274.64	686.60	1373.20	13732	4.83	6.06	6.61
7-0 to 7-6 . . . . (12/1/74)	35.37	70.74	141.48	282.96	707.40	1414.80	14148	4.91	6.11	6.70
7-6 to 8-0 . . . . (6/1/75)	36.45	72.90	145.80	291.60	729.00	1458.00	14580	4.99	6.36	6.82
8-0 to 8-6 . . . . (12/1/75)	37.61	75.22	150.44	300.88	752.20	1504.40	15044	5.08	6.22	6.93
8-6 to 9-0 . . . . (6/1/76)	38.78	77.56	155.12	310.24	775.60	1551.20	15512	5.15	6.45	7.17
9-0 to 9-6 . . . . (12/1/76)	40.03	80.06	160.12	320.24	800.60	1601.20	16012	5.22	6.50	7.53
9-6 to10-0 . . . . (6/1/77)	41.33	82.66	165.32	330.64	826.60	1653.20	16532	5.28	8.57	8.57
10-0 2/ . . . . . (12/1/77)	43.10	86.20	172.40	344.80	862.00	1724.00	17240	5.45 3/	---	---

1/ Month, day, and year on which issues of March 1, 1960, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.74 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 59

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1960

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
6-0 to 6-6 . . . 1/(3/1/74)	$33.40	$66.80	$133.60	$267.20	$668.00	$1336.00	$13360	4.73	5.93	6.52
6-6 to 7-0 . . . . (9/1/74)	34.39	68.78	137.56	275.12	687.80	1375.60	13756	4.82	6.11	6.61
7-0 to 7-6 . . . . (3/1/75)	35.44	70.88	141.76	283.52	708.80	1417.60	14176	4.91	6.15	6.69
7-6 to 8-0 . . . . (9/1/75)	36.53	73.06	146.12	292.24	730.60	1461.20	14612	5.00	6.24	6.80
8-0 to 8-6 . . . . (3/1/76)	37.67	75.34	150.68	301.36	753.40	1506.80	15068	5.07	6.32	6.94
8-6 to 9-0 . . . . (9/1/76)	38.86	77.72	155.44	310.88	777.20	1554.40	15544	5.15	6.33	7.15
9-0 to 9-6 . . . . (3/1/77)	40.09	80.18	160.36	320.72	801.80	1603.60	16036	5.21	6.49	7.56
9-6 to10-0 . . . . (9/1/77)	41.39	82.78	165.56	331.12	827.80	1655.60	16556	5.28	8.65	8.65
10-0 2/ . . . . . (3/1/78)	43.18	86.36	172.72	345.44	863.60	1727.20	17272	5.45 3/	----	----

1/ Month, day, and year on which issues of June 1, 1960, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.76 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 60

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1960

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)*							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
	EXTENDED MATURITY PERIOD									
								Percent	Percent	Percent
5-6 to 6-0 ... 1/(12/1/73)	$32.69	$65.38	$130.76	$261.52	$653.80	$1307.60	$13076	4.77	6.00	6.49
6-0 to 6-6 .... (6/1/74)	33.67	67.34	134.68	269.36	673.40	1346.80	13468	4.87	6.00	6.55
6-6 to 7-0 .... (12/1/74)	34.68	69.36	138.72	277.44	693.60	1387.20	13872	4.95	6.06	6.63
7-0 to 7-6 .... (6/1/75)	35.73	71.46	142.92	285.84	714.60	1429.20	14292	5.03	6.27	6.72
7-6 to 8-0 .... (12/1/75)	36.85	73.70	147.40	294.80	737.00	1474.00	14740	5.12	6.24	6.81
8-0 to 8-6 .... (6/1/76)	38.00	76.00	152.00	304.00	760.00	1520.00	15200	5.19	6.37	6.96
8-6 to 9-0 .... (12/1/76)	39.21	78.42	156.84	313.68	784.20	1568.40	15684	5.25	6.32	7.15
9-0 to 9-6 .... (6/1/77)	40.45	80.90	161.80	323.60	809.00	1618.00	16180	5.31	6.53	7.57
9-6 to 10-0 .... (12/1/77)	41.77	83.54	167.08	334.16	835.40	1670.80	16708	5.38	8.62	8.62
10-0 2/ ..... (6/1/78)	43.57	87.14	174.28	348.56	871.40	1742.80	17428	5.54 3/	---	---

1/ Month, day, and year on which issues of Sept. 1, 1960, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.81 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 61

BONDS BEARING ISSUE DATES FROM DEC. 1, 1960, THROUGH FEB. 1, 1961

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
5-6 to 6-0 . . . 1/(3/1/74)	$32.77	$65.54	$131.08	$262.16	$655.40	$1310.80	$13108	4.77	5.86	6.47
6-0 to 6-6 . . . . (9/1/74)	33.73	67.46	134.92	269.84	674.60	1349.20	13492	4.86	6.05	6.55
6-6 to 7-0 . . . . (3/1/75)	34.75	69.50	139.00	278.00	695.00	1390.00	13900	4.96	6.10	6.62
7-0 to 7-6 . . . . (9/1/75)	35.81	71.62	143.24	286.48	716.20	1432.40	14324	5.04	6.20	6.71
7-6 to 8-0 . . . . (3/1/76)	36.92	73.84	147.68	295.36	738.40	1476.80	14768	5.11	6.18	6.81
8-0 to 8-6 . . . . (9/1/76)	38.06	76.12	152.24	304.48	761.20	1522.40	15224	5.18	6.41	6.97
8-6 to 9-0 . . . . (3/1/77)	39.28	78.56	157.12	314.24	785.60	1571.20	15712	5.25	6.42	7.16
9-0 to 9-6 . . . . (9/1/77)	40.54	81.08	162.16	324.32	810.80	1621.60	16216	5.32	6.56	7.53
9-6 to10-0 . . . . (3/1/78)	41.87	83.74	167.48	334.96	837.40	1674.80	16748	5.38	8.50	8.50
10-0 2/ . . . . . (9/1/78)	43.65	87.30	174.60	349.20	873.00	1746.00	17460	5.54 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1960, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.82 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 62

BONDS BEARING ISSUE DATES FROM MARCH 1 THROUGH MAY 1, 1961

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
5-0 to 5-6 . . . 1/(12/1/73)	$32.07	$64.14	$128.28	$256.56	$641.40	$1282.80	$12828	4.82	5.92	6.45
5-6 to 6-0 . . . . (6/1/74)	33.02	66.04	132.08	264.16	660.40	1320.80	13208	4.92	6.00	6.51
6-0 to 6-6 . . . . (12/1/74)	34.01	68.02	136.04	272.08	680.20	1360.40	13604	5.01	6.00	6.57
6-6 to 7-0 . . . . (6/1/75)	35.03	70.06	140.12	280.24	700.60	1401.20	14012	5.08	6.17	6.65
7-0 to 7-6 . . . . (12/1/75)	36.11	72.22	144.44	288.88	722.20	1444.40	14444	5.16	6.20	6.74
7-6 to 8-0 . . . . (6/1/76)	37.23	74.46	148.92	297.84	744.60	1489.20	14892	5.23	6.29	6.84
8-0 to 8-6 . . . . (12/1/76)	38.40	76.80	153.60	307.20	768.00	1536.00	15360	5.29	6.35	6.98
8-6 to 9-0 . . . . (6/1/77)	39.62	79.24	158.48	316.96	792.40	1584.80	15848	5.36	6.46	7.19
9-0 to 9-6 . . . . (12/1/77)	40.90	81.80	163.60	327.20	818.00	1636.00	16360	5.42	6.50	7.56
9-6 to10-0 . . . . (6/1/78)	42.23	84.46	168.92	337.84	844.60	1689.20	16892	5.47	8.62	8.62
10-0 2/ . . . . . (12/1/78)	44.05	88.10	176.20	352.40	881.00	1762.00	17620	5.63 3/	----	----

1/ Month, day, and year on which issues of March 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.87 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 63

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1961

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
5-0 to 5-6 . . . 1/(3/1/74)	$32.15	$64.30	$128.60	$257.20	$643.00	$1286.00	$12860	4.82	5.91	6.45
5-6 to 6-0 . . . . (9/1/74)	33.10	66.20	132.40	264.80	662.00	1324.00	13240	4.92	6.04	6.52
6-0 to 6-6 . . . . (3/1/75)	34.10	68.20	136.40	272.80	682.00	1364.00	13640	5.01	6.04	6.57
6-6 to 7-0 . . . . (9/1/75)	35.13	70.26	140.52	281.04	702.60	1405.20	14052	5.09	6.09	6.65
7-0 to 7-6 . . . . (3/1/76)	36.20	72.40	144.80	289.60	724.00	1448.00	14480	5.16	6.19	6.74
7-6 to 8-0 . . . . (9/1/76)	37.32	74.64	149.28	298.56	746.40	1492.80	14928	5.23	6.32	6.86
8-0 to 8-6 . . . . (3/1/77)	38.50	77.00	154.00	308.00	770.00	1540.00	15400	5.30	6.39	6.99
8-6 to 9-0 . . . . (9/1/77)	39.73	79.46	158.92	317.84	794.60	1589.20	15892	5.36	6.39	7.19
9-0 to 9-6 . . . . (3/1/78)	41.00	82.00	164.00	328.00	820.00	1640.00	16400	5.42	6.49	7.59
9-6 to10-0 . . . . (9/1/78)	42.33	84.66	169.32	338.64	846.60	1693.20	16932	5.47	8.69	8.69
10-0 2/ . . . . . (3/1/79)	44.17	88.34	176.68	353.36	883.40	1766.80	17668	5.63 3/	----	----

1/ Month, day, and year on which issues of June 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.89 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 64

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1961

Issue price . . . . Denomination	$18.75 25.00	$37.50 50.00	$75.00 100.00	$150.00 200.00	$375.00 500.00	$750.00 1000.00	$7500 10000	Approximate investment yield (annual percentage rate)		
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
4-6 to 5-0 . . . 1/(12/1/73)	$32.19	$64.38	$128.76	$257.52	$643.80	$1287.60	$12876	5.39	6.03	6.00
5-0 to 5-6 . . . . (6/1/74)	33.16	66.32	132.64	265.28	663.20	1326.40	13264	5.45	6.03	6.00
5-6 to 6-0 . . . . (12/1/74)	34.16	68.32	136.64	273.28	683.20	1366.40	13664	5.50	5.97	5.99
6-0 to 6-6 . . . . (6/1/75)	35.18	70.36	140.72	281.44	703.60	1407.20	14072	5.54	5.97	6.00
6-6 to 7-0 . . . . (12/1/75)	36.23	72.46	144.92	289.84	724.60	1449.20	14492	5.58	5.96	6.00
7-0 to 7-6 . . . . (6/1/76)	37.31	74.62	149.24	298.48	746.20	1492.40	14924	5.60	6.06	6.01
7-6 to 8-0 . . . . (12/1/76)	38.44	76.88	153.76	307.52	768.80	1537.60	15376	5.63	6.04	6.00
8-0 to 8-6 . . . . (6/1/77)	39.60	79.20	158.40	316.80	792.00	1584.00	15840	5.66	6.01	5.99
8-6 to 9-0 . . . . (12/1/77)	40.79	81.58	163.16	326.32	815.80	1631.60	16316	5.68	5.93	5.98
9-0 to 9-6 . . . . (6/1/78)	42.00	84.00	168.00	336.00	840.00	1680.00	16800	5.69	6.00	6.01
9-6 to10-0 . . . . (12/1/78)	43.26	86.52	173.04	346.08	865.20	1730.40	17304	5.71	6.01	6.01
10-0 2/ . . . . . (6/1/79)	44.56	89.12	178.24	356.48	891.20	1782.40	17824	5.72 3/	----	----

1/ Month, day, and year on which issues of Sept. 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.94 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 65

BONDS BEARING ISSUE DATES FROM DEC. 1, 1961, THROUGH FEB. 1, 1962

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
4-6 to 5-0 . . . 1/(3/1/74)	$32.28	$64.56	$129.12	$258.24	$645.60	$1291.20	$12912	5.39	6.01	6.00
5-0 to 5-6 . . . . (9/1/74)	33.25	66.50	133.00	266.00	665.00	1330.00	13300	5.45	6.02	6.00
5-6 to 6-0 . . . . (3/1/75)	34.25	68.50	137.00	274.00	685.00	1370.00	13700	5.50	5.96	6.00
6-0 to 6-6 . . . . (9/1/75)	35.27	70.54	141.08	282.16	705.40	1410.80	14108	5.54	6.01	6.01
6-6 to 7-0 . . . . (3/1/76)	36.33	72.66	145.32	290.64	726.60	1453.20	14532	5.58	5.95	6.01
7-0 to 7-6 . . . . (9/1/76)	37.41	74.82	149.64	299.28	748.20	1496.40	14964	5.60	6.04	6.02
7-6 to 8-0 . . . . (3/1/77)	38.54	77.08	154.16	308.32	770.80	1541.60	15416	5.63	6.02	6.01
8-0 to 8-6 . . . . (9/1/77)	39.70	79.40	158.80	317.60	794.00	1588.00	15880	5.66	5.99	6.01
8-6 to 9-0 . . . . (3/1/78)	40.89	81.78	163.56	327.12	817.80	1635.60	16356	5.68	6.02	6.01
9-0 to 9-6 . . . . (9/1/78)	42.12	84.24	168.48	336.96	842.40	1684.80	16848	5.69	5.98	6.01
9-6 to10-0 . . . . (3/1/79)	43.38	86.76	173.52	347.04	867.60	1735.20	17352	5.71	6.04	6.04
10-0 2/ . . . . . (9/1/79)	44.69	89.38	178.76	357.52	893.80	1787.60	17876	5.73 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.95 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 66

BONDS BEARING ISSUE DATES FROM MARCH 1 THROUGH MAY 1, 1962

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
4-0 to 4-6 . . . 1/(12/1/73)	$31.49	$62.98	$125.96	$251.92	$629.80	$1259.60	$12596	5.44	5.97	6.00
4-6 to 5-0 . . . . (6/1/74)	32.43	64.86	129.72	259.44	648.60	1297.20	12972	5.50	6.04	6.00
5-0 to 5-6 . . . . (12/1/74)	33.41	66.82	133.64	267.28	668.20	1336.40	13364	5.55	5.99	6.00
5-6 to 6-0 . . . . (6/1/75)	34.41	68.82	137.64	275.28	688.20	1376.40	13764	5.59	5.99	6.00
6-0 to 6-6 . . . . (12/1/75)	35.44	70.88	141.76	283.52	708.80	1417.60	14176	5.62	6.04	6.00
6-6 to 7-0 . . . . (6/1/76)	36.51	73.02	146.04	292.08	730.20	1460.40	14604	5.65	5.97	6.00
7-0 to 7-6 . . . . (12/1/76)	37.60	75.20	150.40	300.80	752.00	1504.00	15040	5.68	6.01	6.00
7-6 to 8-0 . . . . (6/1/77)	38.73	77.46	154.92	309.84	774.60	1549.20	15492	5.70	5.99	6.00
8-0 to 8-6 . . . . (12/1/77)	39.89	79.78	159.56	319.12	797.80	1595.60	15956	5.72	6.02	6.00
8-6 to 9-0 . . . . (6/1/78)	41.09	82.18	164.36	328.72	821.80	1643.60	16436	5.74	6.04	6.00
9-0 to 9-6 . . . . (12/1/78)	42.33	84.66	169.32	338.64	846.60	1693.20	16932	5.75	5.95	5.98
9-6 to10-0 . . . . (6/1/79)	43.59	87.18	174.36	348.72	871.80	1743.60	17436	5.76	6.01	6.01
10-0 2/ . . . . . (12/1/79)	44.90	89.80	179.60	359.20	898.00	1796.00	17960	5.77 3/	----	----

1/ Month, day, and year on which issues of March 1, 1962, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.98 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 67

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1962

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)*							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
	EXTENDED MATURITY PERIOD									
								Percent	Percent	Percent
4-0 to 4-6 . . . 1/(3/1/74)	$31.56	$63.12	$126.24	$252.48	$631.20	$1262.40	$12624	5.43	6.08	6.00
4-6 to 5-0 . . . . (9/1/74)	32.52	65.04	130.08	260.16	650.40	1300.80	13008	5.50	5.90	6.00
5-0 to 5-6 . . . . (3/1/75)	33.48	66.96	133.92	267.84	669.60	1339.20	13392	5.54	6.03	6.01
5-6 to 6-0 . . . . (9/1/75)	34.49	68.98	137.96	275.92	689.80	1379.60	13796	5.59	5.97	6.00
6-0 to 6-6 . . . . (3/1/76)	35.52	71.04	142.08	284.16	710.40	1420.80	14208	5.62	6.02	6.01
6-6 to 7-0 . . . . (9/1/76)	36.59	73.18	146.36	292.72	731.80	1463.60	14636	5.65	6.07	6.01
7-0 to 7-6 . . . . (3/1/77)	37.70	75.40	150.80	301.60	754.00	1508.00	15080	5.68	5.94	6.00
7-6 to 8-0 . . . . (9/1/77)	38.82	77.64	155.28	310.56	776.40	1552.80	15528	5.70	6.03	6.01
8-0 to 8-6 . . . . (3/1/78)	39.99	79.98	159.96	319.92	799.80	1599.60	15996	5.72	6.00	6.00
8-6 to 9-0 . . . . (9/1/78)	41.19	82.38	164.76	329.52	823.80	1647.60	16476	5.74	5.97	6.00
9-0 to 9-6 . . . . (3/1/79)	42.42	84.84	169.68	339.36	848.40	1696.80	16968	5.75	6.03	6.02
9-6 to10-0 . . . . (9/1/79)	43.70	87.40	174.80	349.60	874.00	1748.00	17480	5.76	6.00	6.00
10-0 2/ . . . . . (3/1/80)	45.01	90.02	180.04	360.08	900.20	1800.40	18004	5.78 3/	----	----

1/ Month, day, and year on which issues of June 1, 1962, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 4.99 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 68

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1962

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
3-6 to 4-0 . . . 1/(12/1/73)	$30.80	$61.60	$123.20	$246.40	$616.00	$1232.00	$12320	5.50	5.97	6.00
4-0 to 4-6 . . . . (6/1/74)	31.72	63.44	126.88	253.76	634.40	1268.80	12688	5.56	6.05	6.00
4-6 to 5-0 . . . . (12/1/74)	32.68	65.36	130.72	261.44	653.60	1307.20	13072	5.62	5.88	6.00
5-0 to 5-6 . . . . (6/1/75)	33.64	67.28	134.56	269.12	672.80	1345.60	13456	5.64	6.12	6.01
5-6 to 6-0 . . . . (12/1/75)	34.67	69.34	138.68	277.36	693.40	1386.80	13868	5.69	5.94	6.00
6-0 to 6-6 . . . . (6/1/76)	35.70	71.40	142.80	285.60	714.00	1428.00	14280	5.71	5.99	6.00
6-6 to 7-0 . . . . (12/1/76)	36.77	73.54	147.08	294.16	735.40	1470.80	14708	5.73	6.04	6.00
7-0 to 7-6 . . . . (6/1/77)	37.88	75.76	151.52	303.04	757.60	1515.20	15152	5.75	5.97	6.00
7-6 to 8-0 . . . . (12/1/77)	39.01	78.02	156.04	312.08	780.20	1560.40	15604	5.77	6.00	6.01
8-0 to 8-6 . . . . (6/1/78)	40.18	80.36	160.72	321.44	803.60	1607.20	16072	5.78	6.02	6.01
8-6 to 9-0 . . . . (12/1/78)	41.39	82.78	165.56	331.12	827.80	1655.60	16556	5.79	5.94	6.00
9-0 to 9-6 . . . . (6/1/79)	42.62	85.24	170.48	340.96	852.40	1704.80	17048	5.80	6.05	6.03
9-6 to10-0 . . . . (12/1/79)	43.91	87.82	175.64	351.28	878.20	1756.40	17564	5.82	6.01	6.01
10-0 2/ . . . . . (6/1/80)	45.23	90.46	180.92	361.84	904.60	1809.20	18092	5.83 3/	---	---

1/ Month, day, and year on which issues of Sept. 1, 1962, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.02 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 69

BONDS BEARING ISSUE DATES FROM DEC. 1, 1962, THROUGH FEBRUARY 1, 1963

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
3-6 to 4-0 . . . 1/(3/1/74)	$30.92	$61.84	$123.68	$247.36	$618.40	$1236.80	$12368	5.50	6.02	6.00
4-0 to 4-6 . . . . (9/1/74)	31.85	63.70	127.40	254.80	637.00	1274.00	12740	5.57	5.97	6.00
4-6 to 5-0 . . . . (3/1/75)	32.80	65.60	131.20	262.40	656.00	1312.00	13120	5.61	6.04	6.00
5-0 to 5-6 . . . . (9/1/75)	33.79	67.58	135.16	270.32	675.80	1351.60	13516	5.65	5.98	6.00
5-6 to 6-0 . . . . (3/1/76)	34.80	69.60	139.20	278.40	696.00	1392.00	13920	5.68	5.98	6.00
6-0 to 6-6 . . . . (9/1/76)	35.84	71.68	143.36	286.72	716.80	1433.60	14336	5.71	5.97	6.00
6-6 to 7-0 . . . . (3/1/77)	36.91	73.82	147.64	295.28	738.20	1476.40	14764	5.73	6.01	6.00
7-0 to 7-6 . . . . (9/1/77)	38.02	76.04	152.08	304.16	760.40	1520.80	15208	5.75	6.00	6.00
7-6 to 8-0 . . . . (3/1/78)	39.16	78.32	156.64	313.28	783.20	1566.40	15664	5.76	6.03	6.00
8-0 to 8-6 . . . . (9/1/78)	40.34	80.68	161.36	322.72	806.80	1613.60	16136	5.78	6.00	6.00
8-6 to 9-0 . . . . (3/1/79)	41.55	83.10	166.20	332.40	831.00	1662.00	16620	5.79	6.02	6.00
9-0 to 9-6 . . . . (9/1/79)	42.80	85.60	171.20	342.40	856.00	1712.00	17120	5.81	5.98	5.99
9-6 to10-0 . . . . (3/1/80)	44.08	88.16	176.32	352.64	881.60	1763.20	17632	5.82	5.99	5.99
10-0 2/ . . . . . (9/1/80)	45.40	90.80	181.60	363.20	908.00	1816.00	18160	5.82 3/	—	—

1/ Month, day, and year on which issues of Dec. 1, 1962, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.04 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 70

BONDS BEARING ISSUE DATES FROM MARCH 1 THROUGH MAY 1, 1963

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
3-0 to 3-6 . . . 1/(12/1/73)	$30.09	$60.18	$120.36	$240.72	$601.80	$1203.60	$12036	5.50	6.05	6.00
3-6 to 4-0 . . . . (6/1/74)	31.00	62.00	124.00	248.00	620.00	1240.00	12400	5.58	5.94	5.99
4-0 to 4-6 . . . . (12/1/74)	31.92	63.84	127.68	255.36	638.40	1276.80	12768	5.62	6.02	6.00
4-6 to 5-0 . . . . (6/1/75)	32.88	65.76	131.52	263.04	657.60	1315.20	13152	5.67	6.02	6.00
5-0 to 5-6 . . . . (12/1/75)	33.87	67.74	135.48	270.96	677.40	1354.80	13548	5.70	5.96	6.00
5-6 to 6-0 . . . . (6/1/76)	34.88	69.76	139.52	279.04	697.60	1395.20	13952	5.73	6.02	6.00
6-0 to 6-6 . . . . (12/1/76)	35.93	71.86	143.72	287.44	718.60	1437.20	14372	5.75	5.96	6.00
6-6 to 7-0 . . . . (6/1/77)	37.00	74.00	148.00	296.00	740.00	1480.00	14800	5.77	6.00	6.00
7-0 to 7-6 . . . . (12/1/77)	38.11	76.22	152.44	304.88	762.20	1524.40	15244	5.78	6.04	6.00
7-6 to 8-0 . . . . (6/1/78)	39.26	78.52	157.04	314.08	785.20	1570.40	15704	5.80	6.01	6.00
8-0 to 8-6 . . . . (12/1/78)	40.44	80.88	161.76	323.52	808.80	1617.60	16176	5.81	5.98	5.99
8-6 to 9-0 . . . . (6/1/79)	41.65	83.30	166.60	333.20	833.00	1666.00	16660	5.82	6.00	6.00
9-0 to 9-6 . . . . (12/1/79)	42.90	85.80	171.60	343.20	858.00	1716.00	17160	5.83	5.97	5.99
9-6 to 10-0 . . . . (6/1/80)	44.18	88.36	176.72	353.44	883.60	1767.20	17672	5.84	6.02	6.02
10-0 2/ . . . . . (12/1/80)	45.51	91.02	182.04	364.08	910.20	1820.40	18204	5.85 3/	---	---

1/ Month, day, and year on which issues of March 1, 1963, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity reached at 17 years 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.06 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 71

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1963

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
3-0 to 3-6 . . . 1/(3/1/74)	$30.31	$60.62	$121.24	$242.48	$606.20	$1212.40	$12124	5.50	6.07	6.00
3-6 to 4-0 . . . . (9/1/74)	31.23	62.46	124.92	249.84	624.60	1249.20	12492	5.58	5.96	6.00
4-0 to 4-6 . . . . (3/1/75)	32.16	64.32	128.64	257.28	643.20	1286.40	12864	5.63	5.97	6.00
4-6 to 5-0 . . . . (9/1/75)	33.12	66.24	132.48	264.96	662.40	1324.80	13248	5.66	6.04	6.00
5-0 to 5-6 . . . . (3/1/76)	34.12	68.24	136.48	272.96	682.40	1364.80	13648	5.70	5.98	6.00
5-6 to 6-0 . . . . (9/1/76)	35.14	70.28	140.56	281.12	702.80	1405.60	14056	5.73	5.98	6.00
6-0 to 6-6 . . . . (3/1/77)	36.19	72.38	144.76	289.52	723.80	1447.60	14476	5.75	6.02	6.00
6-6 to 7-0 . . . . (9/1/77)	37.28	74.56	149.12	298.24	745.60	1491.20	14912	5.77	6.01	6.00
7-0 to 7-6 . . . . (3/1/78)	38.40	76.80	153.60	307.20	768.00	1536.00	15360	5.79	6.04	6.00
7-6 to 8-0 . . . . (9/1/78)	39.56	79.12	158.24	316.48	791.20	1582.40	15824	5.80	5.97	5.99
8-0 to 8-6 . . . . (3/1/79)	40.74	81.48	162.96	325.92	814.80	1629.60	16296	5.81	5.99	6.00
8-6 to 9-0 . . . . (9/1/79)	41.96	83.92	167.84	335.68	839.20	1678.40	16784	5.82	6.01	6.00
9-0 to 9-6 . . . . (3/1/80)	43.22	86.44	172.88	345.76	864.40	1728.80	17288	5.83	5.97	6.00
9-6 to10-0 . . . . (9/1/80)	44.51	89.02	178.04	356.08	890.20	1780.40	17804	5.84	6.02	6.02
10-0 2/ . . . . . (3/1/81)	45.85	91.70	183.40	366.80	917.00	1834.00	18340	5.85 3/	—	—

1/ Month, day, and year on which issues of June 1, 1963 enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.10 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 72

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1963

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD							(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
								Percent	Percent	Percent
2-6 to 3-0 . . . 1/(12/1/73)	$29.50	$59.00	$118.00	$236.00	$590.00	$1180.00	$11800	5.50	5.97	6.00
3-0 to 3-6 . . . . (6/1/74)	30.38	60.76	121.52	243.04	607.60	1215.20	12152	5.58	6.06	6.01
3-6 to 4-0 . . . . (12/1/74)	31.30	62.60	125.20	250.40	626.00	1252.00	12520	5.64	5.94	6.00
4-0 to 4-6 . . . . (6/1/75)	32.23	64.46	128.92	257.84	644.60	1289.20	12892	5.68	6.02	6.01
4-6 to 5-0 . . . . (12/1/75)	33.20	66.40	132.80	265.60	664.00	1328.00	13280	5.72	6.02	6.01
5-0 to 5-6 . . . . (6/1/76)	34.20	68.40	136.80	273.60	684.00	1368.00	13680	5.75	6.02	6.00
5-6 to 6-0 . . . . (12/1/76)	35.23	70.46	140.92	281.84	704.60	1409.20	14092	5.77	5.96	6.00
6-0 to 6-6 . . . . (6/1/77)	36.28	72.56	145.12	290.24	725.60	1451.20	14512	5.79	6.01	6.01
6-6 to 7-0 . . . . (12/1/77)	37.37	74.74	149.48	298.96	747.40	1494.80	14948	5.81	5.99	6.01
7-0 to 7-6 . . . . (6/1/78)	38.49	76.98	153.96	307.92	769.80	1539.60	15396	5.82	6.03	6.01
7-6 to 8-0 . . . . (12/1/78)	39.65	79.30	158.60	317.20	793.00	1586.00	15860	5.83	6.00	6.00
8-0 to 8-6 . . . . (6/1/79)	40.84	81.68	163.36	326.72	816.80	1633.60	16336	5.84	5.97	6.00
8-6 to 9-0 . . . . (12/1/79)	42.06	84.12	168.24	336.48	841.20	1682.40	16824	5.85	6.04	6.01
9-0 to 9-6 . . . . (6/1/80)	43.33	86.66	173.32	346.64	866.60	1733.20	17332	5.86	5.95	6.00
9-6 to 10-0 . . . . (12/1/80)	44.62	89.24	178.48	356.96	892.40	1784.80	17848	5.87	6.05	6.05
10-0 2/ . . . . . (6/1/81)	45.97	91.94	183.88	367.76	919.40	1838.80	18388	5.88 3/	----	----

1/ Month, day, and year on which issues of Sept. 1, 1963, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity reached at 17 years 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.12 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 73

BONDS BEARING ISSUE DATES FROM DEC. 1, 1963, THROUGH FEB. 1, 1964

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
2-6 to 3-0 . . . 1/(3/1/74)	$29.69	$59.38	$89.07	$118.76	$237.52	$593.80	$1187.60	$11876	5.51	5.93	6.00
3-0 to 3-6 . . . . (9/1/74)	30.57	61.14	91.71	122.28	244.56	611.40	1222.80	12228	5.58	6.02	6.00
3-6 to 4-0 . . . . (3/1/75)	31.49	62.98	94.47	125.96	251.92	629.80	1259.60	12596	5.64	6.03	6.00
4-0 to 4-6 . . . . (9/1/75)	32.44	64.88	97.32	129.76	259.52	648.80	1297.60	12976	5.69	5.98	6.00
4-6 to 5-0 . . . . (3/1/76)	33.41	66.82	100.23	133.64	267.28	668.20	1336.40	13364	5.72	6.05	6.00
5-0 to 5-6 . . . . (9/1/76)	34.42	68.84	103.26	137.68	275.36	688.40	1376.80	13768	5.75	5.93	6.00
5-6 to 6-0 . . . . (3/1/77)	35.44	70.88	106.32	141.76	283.52	708.80	1417.60	14176	5.77	6.04	6.00
6-0 to 6-6 . . . . (9/1/77)	36.51	73.02	109.53	146.04	292.08	730.20	1460.40	14604	5.79	5.97	6.00
6-6 to 7-0 . . . . (3/1/78)	37.60	75.20	112.80	150.40	300.80	752.00	1504.00	15040	5.81	6.01	6.00
7-0 to 7-6 . . . . (9/1/78)	38.73	77.46	116.19	154.92	309.84	774.60	1549.20	15492	5.82	6.04	6.00
7-6 to 8-0 . . . . (3/1/79)	39.90	79.80	119.70	159.60	319.20	798.00	1596.00	15960	5.83	5.96	6.00
8-0 to 8-6 . . . . (9/1/79)	41.09	82.18	123.27	164.36	328.72	821.80	1643.60	16436	5.84	6.04	6.00
8-6 to 9-0 . . . . (3/1/80)	42.33	84.66	126.99	169.32	338.64	846.60	1693.20	16932	5.85	6.00	5.99
9-0 to 9-6 . . . . (9/1/80)	43.60	87.20	130.80	174.40	348.80	872.00	1744.00	17440	5.86	5.96	5.99
9-6 to10-0 . . . . (3/1/81)	44.90	89.80	134.70	179.60	359.20	898.00	1796.00	17960	5.87	6.01	6.01
10-0 2/ . . . . . (9/1/81)	46.25	92.50	138.75	185.00	370.00	925.00	1850.00	18500	5.88 3/	---	---

1/ Month, day, and year on which issues of Dec. 1, 1963, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.15 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 74

BONDS BEARING ISSUE DATES FROM MARCH 1 THROUGH MAY 1, 1964

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
2-0 to 2-6 . . . 1/(12/1/73)	$28.89	$57.78	$86.67	$115.56	$231.12	$577.80	$1155.60	$11556	5.50	6.02	6.00
2-6 to 3-0 . . . . (6/1/74)	29.76	59.52	89.28	119.04	238.08	595.20	1190.40	11904	5.60	5.98	6.00
3-0 to 3-6 . . . . (12/1/74)	30.65	61.30	91.95	122.60	245.20	613.00	1226.00	12260	5.67	6.00	6.00
3-6 to 4-0 . . . . (6/1/75)	31.57	63.14	94.71	126.28	252.56	631.40	1262.80	12628	5.71	5.96	6.00
4-0 to 4-6 . . . . (12/1/75)	32.51	65.02	97.53	130.04	260.08	650.20	1300.40	13004	5.74	6.03	6.00
4-6 to 5-0 . . . . (6/1/76)	33.49	66.98	100.47	133.96	267.92	669.80	1339.60	13396	5.78	6.03	6.00
5-0 to 5-6 . . . . (12/1/76)	34.50	69.00	103.50	138.00	276.00	690.00	1380.00	13800	5.80	5.97	6.00
5-6 to 6-0 . . . . (6/1/77)	35.53	71.06	106.59	142.12	284.24	710.60	1421.20	14212	5.82	5.97	6.00
6-0 to 6-6 . . . . (12/1/77)	36.59	73.18	109.77	146.36	292.72	731.80	1463.60	14636	5.83	6.07	6.00
6-6 to 7-0 . . . . (6/1/78)	37.70	75.40	113.10	150.80	301.60	754.00	1508.00	15080	5.85	5.94	6.00
7-0 to 7-6 . . . . (12/1/78)	38.82	77.64	116.46	155.28	310.56	776.40	1552.80	15528	5.85	6.03	6.01
7-6 to 8-0 . . . . (6/1/79)	39.99	79.98	119.97	159.96	319.92	799.80	1599.60	15996	5.87	6.00	6.00
8-0 to 8-6 . . . . (12/1/79)	41.19	82.38	123.57	164.76	329.52	823.80	1647.60	16476	5.87	6.02	6.00
8-6 to 9-0 . . . . (6/1/80)	42.43	84.86	127.29	169.72	339.44	848.60	1697.20	16972	5.88	5.99	5.99
9-0 to 9-6 . . . . (12/1/80)	43.70	87.40	131.10	174.80	349.60	874.00	1748.00	17480	5.89	6.00	6.00
9-6 to10-0 . . . . (6/1/81)	45.01	90.02	135.03	180.04	360.08	900.20	1800.40	18004	5.89	6.00	6.00
10-0 2/ . . . . . (12/1/81)	46.36	92.72	139.08	185.44	370.88	927.20	1854.40	18544	5.90 3/	—	—

1/ Month, day, and year on which issues of March 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity reached at 17 years 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.17 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 75

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1964

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* — EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
2-0 to 2-6 . . . 1/(3/1/74)	$29.08	$58.16	$87.24	$116.32	$232.64	$581.60	$1163.20	$11632	5.50	5.98	6.00
2-6 to 3-0 . . . . (9/1/74)	29.95	59.90	89.85	119.80	239.60	599.00	1198.00	11980	5.60	6.01	6.00
3-0 to 3-6 . . . . (3/1/75)	30.85	61.70	92.55	123.40	246.80	617.00	1234.00	12340	5.66	6.03	6.00
3-6 to 4-0 . . . . (9/1/75)	31.78	63.56	95.34	127.12	254.24	635.60	1271.20	12712	5.72	5.98	6.00
4-0 to 4-6 . . . . (3/1/76)	32.73	65.46	98.19	130.92	261.84	654.60	1309.20	13092	5.75	6.05	6.00
4-6 to 5-0 . . . . (9/1/76)	33.72	67.44	101.16	134.88	269.76	674.40	1348.80	13488	5.78	5.93	6.00
5-0 to 5-6 . . . . (3/1/77)	34.72	69.44	104.16	138.88	277.76	694.40	1388.80	13888	5.80	5.99	6.00
5-6 to 6-0 . . . . (9/1/77)	35.76	71.52	107.28	143.04	286.08	715.20	1430.40	14304	5.82	6.04	6.01
6-0 to 6-6 . . . . (3/1/78)	36.84	73.68	110.52	147.36	294.72	736.80	1473.60	14736	5.83	5.97	6.00
6-6 to 7-0 . . . . (9/1/78)	37.94	75.88	113.82	151.76	303.52	758.80	1517.60	15176	5.84	6.01	6.01
7-0 to 7-6 . . . . (3/1/79)	39.08	78.16	117.24	156.32	312.64	781.60	1563.20	15632	5.86	5.99	6.00
7-6 to 8-0 . . . . (9/1/79)	40.25	80.50	120.75	161.00	322.00	805.00	1610.00	16100	5.87	6.01	6.01
8-0 to 8-6 . . . . (3/1/80)	41.46	82.92	124.38	165.84	331.68	829.20	1658.40	16584	5.87	6.03	6.01
8-6 to 9-0 . . . . (9/1/80)	42.71	85.42	128.13	170.84	341.68	854.20	1708.40	17084	5.88	5.99	6.00
9-0 to 9-6 . . . . (3/1/81)	43.99	87.98	131.97	175.96	351.92	879.80	1759.60	17596	5.89	5.96	6.00
9-6 to 10-0 . . . . (9/1/81)	45.30	90.60	135.90	181.20	362.40	906.00	1812.00	18120	5.89	6.05	6.05
10-0 2/ . . . . . . (3/1/82)	46.67	93.34	140.01	186.68	373.36	933.40	1866.80	18668	5.90 3/	----	----

1/ Month, day, and year on which issues of June 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.20 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 76

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1964

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
1-6 to 2-0 . . . 1/(12/1/73)	$28.30	$56.60	$84.90	$113.20	$226.40	$566.00	$1132.00	$11320	5.49	6.01	6.00
2-0 to 2-6 . . . . (6/1/74)	29.15	58.30	87.45	116.60	233.20	583.00	1166.00	11660	5.62	6.04	6.00
2-6 to 3-0 . . . . (12/1/74)	30.03	60.06	90.09	120.12	240.24	600.60	1201.20	12012	5.71	5.93	6.00
3-0 to 3-6 . . . . (6/1/75)	30.92	61.84	92.76	123.68	247.36	618.40	1236.80	12368	5.74	6.08	6.00
3-6 to 4-0 . . . . (12/1/75)	31.86	63.72	95.58	127.44	254.88	637.20	1274.40	12744	5.79	5.96	6.00
4-0 to 4-6 . . . . (6/1/76)	32.81	65.62	98.43	131.24	262.48	656.20	1312.40	13124	5.81	6.03	6.00
4-6 to 5-0 . . . . (12/1/76)	33.80	67.60	101.40	135.20	270.40	676.00	1352.00	13520	5.84	5.98	6.00
5-0 to 5-6 . . . . (6/1/77)	34.81	69.62	104.43	139.24	278.48	696.20	1392.40	13924	5.85	5.98	6.00
5-6 to 6-0 . . . . (12/1/77)	35.85	71.70	107.55	143.40	286.80	717.00	1434.00	14340	5.86	6.03	6.00
6-0 to 6-6 . . . . (6/1/78)	36.93	73.86	110.79	147.72	295.44	738.60	1477.20	14772	5.88	5.96	6.00
6-6 to 7-0 . . . . (12/1/78)	38.03	76.06	114.09	152.12	304.24	760.60	1521.20	15212	5.88	6.00	6.00
7-0 to 7-6 . . . . (6/1/79)	39.17	78.34	117.51	156.68	313.36	783.40	1566.80	15668	5.89	6.03	6.01
7-6 to 8-0 . . . . (12/1/79)	40.35	80.70	121.05	161.40	322.80	807.00	1614.00	16140	5.90	6.00	6.00
8-0 to 8-6 . . . . (6/1/80)	41.56	83.12	124.68	166.24	332.48	831.20	1662.40	16624	5.91	6.02	6.00
8-6 to 9-0 . . . . (12/1/80)	42.81	85.62	128.43	171.24	342.48	856.20	1712.40	17124	5.91	6.03	6.00
9-0 to 9-6 . . . . (6/1/81)	44.10	88.20	132.30	176.40	352.80	882.00	1764.00	17640	5.92	5.94	5.99
9-6 to10-0 . . . . (12/1/81)	45.41	90.82	136.23	181.64	363.28	908.20	1816.40	18164	5.92	6.03	6.03
10-0 2/ . . . . . (6/1/82)	46.78	93.56	140.34	187.12	374.24	935.60	1871.20	18712	5.93 3/	---	---

1/ Month, day, and year on which issues of Sept. 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity reached at 17 years 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.22 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 77

BONDS BEARING ISSUE DATES FROM DEC. 1, 1964, THROUGH FEB. 1, 1965

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
1-6 to 2-0 . . . 1/(3/1/74)	$28.48	$56.96	$85.44	$113.92	$227.84	$569.60	$1139.20	$11392	5.51	5.97	6.00
2-0 to 2-6 . . . . (9/1/74)	29.33	58.66	87.99	117.32	234.64	586.60	1173.20	11732	5.62	6.00	6.00
2-6 to 3-0 . . . . (3/1/75)	30.21	60.42	90.63	120.84	241.68	604.20	1208.40	12084	5.70	6.02	6.00
3-0 to 3-6 . . . . (9/1/75)	31.12	62.24	93.36	124.48	248.96	622.40	1244.80	12448	5.75	5.98	6.00
3-6 to 4-0 . . . . (3/1/76)	32.05	64.10	96.15	128.20	256.40	641.00	1282.00	12820	5.79	5.99	6.00
4-0 to 4-6 . . . . (9/1/76)	33.01	66.02	99.03	132.04	264.08	660.20	1320.40	13204	5.81	6.00	6.00
4-6 to 5-0 . . . . (3/1/77)	34.00	68.00	102.00	136.00	272.00	680.00	1360.00	13600	5.83	6.00	6.00
5-0 to 5-6 . . . . (9/1/77)	35.02	70.04	105.06	140.08	280.16	700.40	1400.80	14008	5.85	6.00	6.00
5-6 to 6-0 . . . . (3/1/78)	36.07	72.14	108.21	144.28	288.56	721.40	1442.80	14428	5.86	5.99	6.00
6-0 to 6-6 . . . . (9/1/78)	37.15	74.30	111.45	148.60	297.20	743.00	1486.00	14860	5.87	6.03	6.00
6-6 to 7-0 . . . . (3/1/79)	38.27	76.54	114.81	153.08	306.16	765.40	1530.80	15308	5.88	6.01	6.00
7-0 to 7-6 . . . . (9/1/79)	39.42	78.84	118.26	157.68	315.36	788.40	1576.80	15768	5.89	5.99	5.99
7-6 to 8-0 . . . . (3/1/80)	40.60	81.20	121.80	162.40	324.80	812.00	1624.00	16240	5.90	6.01	5.99
8-0 to 8-6 . . . . (9/1/80)	41.82	83.64	125.46	167.28	334.56	836.40	1672.80	16728	5.91	5.98	5.99
8-6 to 9-0 . . . . (3/1/81)	43.07	86.14	129.21	172.28	344.56	861.40	1722.80	17228	5.91	6.04	5.99
9-0 to 9-6 . . . . (9/1/81)	44.37	88.74	133.11	177.48	354.96	887.40	1774.80	17748	5.92	5.95	5.97
9-6 to 10-0 . . . . (3/1/82)	45.69	91.38	137.07	182.76	365.52	913.80	1827.60	18276	5.92	6.00	6.00
10-0 2/ . . . . . (9/1/82)	47.06	94.12	141.18	188.24	376.48	941.20	1882.40	18824	5.92 3/	---	---

1/ Month, day, and year on which issues of Dec. 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.25 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 78

BONDS BEARING ISSUE DATES FROM MARCH 1 THROUGH MAY 1, 1965

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
1-0 to 1-6 . . . 1/(12/1/73)	$27.71	$55.42	$83.13	$110.84	$221.68	$554.20	$1108.40	$11084	5.49	6.06	6.00
1-6 to 2-0 . . . . (6/1/74)	28.55	57.10	85.65	114.20	228.40	571.00	1142.00	11420	5.68	5.95	6.00
2-0 to 2-6 . . . . (12/1/74)	29.40	58.80	88.20	117.60	235.20	588.00	1176.00	11760	5.75	5.99	6.00
2-6 to 3-0 . . . . (6/1/75)	30.28	60.56	90.84	121.12	242.24	605.60	1211.20	12112	5.80	6.01	6.00
3-0 to 3-6 . . . . (12/1/75)	31.19	62.38	93.57	124.76	249.52	623.80	1247.60	12476	5.83	6.03	6.00
3-6 to 4-0 . . . . (6/1/76)	32.13	64.26	96.39	128.52	257.04	642.60	1285.20	12852	5.86	5.98	6.00
4-0 to 4-6 . . . . (12/1/76)	33.09	66.18	99.27	132.36	264.72	661.80	1323.60	13236	5.87	5.98	6.00
4-6 to 5-0 . . . . (6/1/77)	34.08	68.16	102.24	136.32	272.64	681.60	1363.20	13632	5.89	6.04	6.00
5-0 to 5-6 . . . . (12/_/77)	35.11	70.22	105.33	140.44	280.88	702.20	1404.40	14044	5.90	5.98	6.00
5-6 to 6-0 . . . . (6/1/78)	36.16	72.32	108.48	144.64	289.28	723.20	1446.40	14464	5.91	5.97	6.00
6-0 to 6-6 . . . . (12/1/78)	37.24	74.48	111.72	148.96	297.92	744.80	1489.60	14896	5.91	6.02	6.00
6-6 to 7-0 . . . . (6/1/79)	38.36	76.72	115.08	153.44	306.88	767.20	1534.40	15344	5.92	6.05	6.00
7-0 to 7-6 . . . . (12/1/79)	39.52	79.04	118.56	158.08	316.16	790.40	1580.80	15808	5.93	5.97	5.99
7-6 to 8-0 . . . . (6/1/80)	40.70	81.40	122.10	162.80	325.60	814.00	1628.00	16280	5.93	6.00	6.00
8-0 to 8-6 . . . . (12/1/80)	41.92	83.84	125.76	167.68	335.36	838.40	1676.80	16768	5.94	6.01	6.00
8-6 to 9-0 . . . . (6/1/81)	43.18	86.36	129.54	172.72	345.44	863.60	1727.20	17272	5.94	6.02	5.99
9-0 to 9-6 . . . . (12/1/81)	44.48	88.96	133.44	177.92	355.84	889.60	1779.20	17792	5.95	5.94	5.98
9-6 to 10-0 . . . . (6/1/82)	45.80	91.60	137.40	183.20	366.40	916.00	1832.00	18320	5.95	6.03	6.03
10-0 2/ . . . . . (12/1/82)	47.18	94.36	141.54	188.72	377.44	943.60	1887.20	18872	5.95 3/	----	----

1/ Month, day, and year on which issues of March 1, 1965, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity reached at 17 years 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.27 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 79

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH AUG. 1, 1965

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
1-0 to 1-6 . . . 1/(3/1/74)	$27.87	$55.74	$83.61	$111.48	$222.96	$557.40	$1114.80	$11148	5.49	6.03	6.00
1-6 to 2-0 . . . . (9/1/74)	28.71	57.42	86.13	114.84	229.68	574.20	1148.40	11484	5.67	5.99	6.00
2-0 to 2-6 . . . . (3/1/75)	29.57	59.14	88.71	118.28	236.56	591.40	1182.80	11828	5.75	6.02	6.00
2-6 to 3-0 . . . . (9/1/75)	30.46	60.92	91.38	121.84	243.68	609.20	1218.40	12184	5.80	5.98	6.00
3-0 to 3-6 . . . . (3/1/76)	31.37	62.74	94.11	125.48	250.96	627.40	1254.80	12548	5.83	5.99	6.00
3-6 to 4-0 . . . . (9/1/76)	32.31	64.62	96.93	129.24	258.48	646.20	1292.40	12924	5.86	6.00	6.00
4-0 to 4-6 . . . . (3/1/77)	33.28	66.56	99.84	133.12	266.24	665.60	1331.20	13312	5.87	6.01	6.00
4-6 to 5-0 . . . . (9/1/77)	34.28	68.56	102.84	137.12	274.24	685.60	1371.20	13712	5.89	6.01	6.00
5-0 to 5-6 . . . . (3/1/78)	35.31	70.62	105.93	141.24	282.48	706.20	1412.40	14124	5.90	6.00	6.00
5-6 to 6-0 . . . . (9/1/78)	36.37	72.74	109.11	145.48	290.96	727.40	1454.80	14548	5.91	5.99	6.00
6-0 to 6-6 . . . . (3/1/79)	37.46	74.92	112.38	149.84	299.68	749.20	1498.40	14984	5.92	5.98	6.00
6-6 to 7-0 . . . . (9/1/79)	38.58	77.16	115.74	154.32	308.64	771.60	1543.20	15432	5.92	6.01	6.00
7-0 to 7-6 . . . . (3/1/80)	39.74	79.48	119.22	158.96	317.92	794.80	1589.60	15896	5.93	5.99	6.00
7-6 to 8-0 . . . . (9/1/80)	40.93	81.86	122.79	163.72	327.44	818.60	1637.20	16372	5.93	6.01	6.00
8-0 to 8-6 . . . . (3/1/81)	42.16	84.32	126.48	168.64	337.28	843.20	1686.40	16864	5.94	5.98	6.00
8-6 to 9-0 . . . . (9/1/81)	43.42	86.84	130.26	173.68	347.36	868.40	1736.80	17368	5.94	6.03	6.01
9-0 to 9-6 . . . . (3/1/82)	44.73	89.46	134.19	178.92	357.84	894.60	1789.20	17892	5.95	5.95	5.99
9-6 to 10-0 . . . . (9/1/82)	46.06	92.12	138.18	184.24	368.48	921.20	1842.40	18424	5.95	6.04	6.04
10-0 2/ . . . . . (3/1/83)	47.45	94.90	142.35	189.80	379.60	949.00	1898.00	18980	5.95 3/	----	----

1/ Month, day, and year on which issues of June 1, 1965, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.30 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 80

BONDS BEARING ISSUE DATES FROM SEPT. 1 THROUGH NOV. 1, 1965

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 9 months)	(1) Redemption values during each half-year period (values increase on first day of period)*								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
	EXTENDED MATURITY PERIOD										
									Percent	Percent	Percent
0-6 to 1-0 . . . 1/(12/1/73)	$27.13	$54.26	$81.39	$108.52	$217.04	$542.60	$1085.20	$10852	5.53	5.97	6.00
1-0 to 1-6 . . . . (6/1/74)	27.94	55.88	83.82	111.76	223.52	558.80	1117.60	11176	5.75	6.01	6.00
1-6 to 2-0 . . . . (12/1/74)	28.78	57.56	86.34	115.12	230.24	575.60	1151.20	11512	5.84	6.05	6.00
2-0 to 2-6 . . . . (6/1/75)	29.65	59.30	88.95	118.60	237.20	593.00	1186.00	11860	5.89	6.00	6.00
2-6 to 3-0 . . . . (12/1/75)	30.54	61.08	91.62	122.16	244.32	610.80	1221.60	12216	5.91	5.96	6.00
3-0 to 3-6 . . . . (6/1/76)	31.45	62.90	94.35	125.80	251.60	629.00	1258.00	12580	5.92	5.98	6.00
3-6 to 4-0 . . . . (12/1/76)	32.39	64.78	97.17	129.56	259.12	647.80	1295.60	12956	5.93	5.99	6.00
4-0 to 4-6 . . . . (6/1/77)	33.36	66.72	100.08	133.44	266.88	667.20	1334.40	13344	5.94	6.00	6.00
4-6 to 5-0 . . . . (12/1/77)	34.36	68.72	103.08	137.44	274.88	687.20	1374.40	13744	5.94	6.05	6.00
5-0 to 5-6 . . . . (6/1/78)	35.40	70.80	106.20	141.60	283.20	708.00	1416.00	14160	5.95	5.99	6.00
5-6 to 6-0 . . . . (12/1/78)	36.46	72.92	109.38	145.84	291.68	729.20	1458.40	14584	5.96	5.98	6.00
6-0 to 6-6 . . . . (6/1/79)	37.55	75.10	112.65	150.20	300.40	751.00	1502.00	15020	5.96	5.97	6.00
6-6 to 7-0 . . . . (12/1/79)	38.67	77.34	116.01	154.68	309.36	773.40	1546.80	15468	5.96	6.05	6.01
7-0 to 7-6 . . . . (6/1/80)	39.84	79.68	119.52	159.36	318.72	796.80	1593.60	15936	5.97	5.97	6.00
7-6 to 8-0 . . . . (12/1/80)	41.03	82.06	123.09	164.12	328.24	820.60	1641.20	16412	5.97	6.00	6.00
8-0 to 8-6 . . . . (6/1/81)	42.26	84.52	126.78	169.04	338.08	845.20	1690.40	16904	5.97	6.01	6.01
8-6 to 9-0 . . . . (12/1/81)	43.53	87.06	130.59	174.12	348.24	870.60	1741.20	17412	5.97	5.97	6.01
9-0 to 9-6 . . . . (6/1/82)	44.83	89.66	134.49	179.32	358.64	896.60	1793.20	17932	5.97	6.02	6.02
9-6 to10-0 . . . . (12/1/82)	46.18	92.36	138.54	184.72	369.44	923.60	1847.20	18472	5.97	6.02	6.02
10-0 2/ . . . . . (6/1/83)	47.57	95.14	142.71	190.28	380.56	951.40	1902.80	19028	5.98 3/	—	—

1/ Month, day, and year on which issues of Sept. 1, 1965, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity reached at 17 years 9 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.31 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 81

BONDS BEARING ISSUE DATES FROM DEC. 1, 1965, THROUGH MAY 1, 1966

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
1-0 to 1-6 . . . 1/(12/1/73)	$27.22	$54.44	$81.66	$108.88	$217.76	$544.40	$1088.80	$10888	5.51	6.02	6.00
1-6 to 2-0 . . . . (6/1/74)	28.04	56.08	84.12	112.16	224.32	560.80	1121.60	11216	5.68	5.92	6.00
2-0 to 2-6 . . . . (12/1/74)	28.87	57.74	86.61	115.48	230.96	577.40	1154.80	11548	5.74	6.10	6.00
2-6 to 3-0 . . . . (6/1/75)	29.75	59.50	89.25	119.00	238.00	595.00	1190.00	11900	5.81	5.98	5.99
3-0 to 3-6 . . . . (12/1/75)	30.64	61.28	91.92	122.56	245.12	612.80	1225.60	12256	5.84	5.94	5.99
3-6 to 4-0 . . . . (6/1/76)	31.55	63.10	94.65	126.20	252.40	631.00	1262.00	12620	5.85	6.02	6.00
4-0 to 4-6 . . . . (12/1/76)	32.50	65.00	97.50	130.00	260.00	650.00	1300.00	13000	5.88	5.97	6.00
4-6 to 5-0 . . . . (6/1/77)	33.47	66.94	100.41	133.88	267.76	669.40	1338.80	13388	5.89	5.98	6.00
5-0 to 5-6 . . . . (12/1/77)	34.47	68.94	103.41	137.88	275.76	689.40	1378.80	13788	5.90	6.03	6.00
5-6 to 6-0 . . . . (6/1/78)	35.51	71.02	106.53	142.04	284.08	710.20	1420.40	14204	5.91	6.03	6.00
6-0 to 6-6 . . . . (12/1/78)	36.58	73.16	109.74	146.32	292.64	731.60	1463.20	14632	5.92	5.96	6.00
6-6 to 7-0 . . . . (6/1/79)	37.67	75.34	113.01	150.68	301.36	753.40	1506.80	15068	5.92	6.05	6.00
7-0 to 7-6 . . . . (12/1/79)	38.81	77.62	116.43	155.24	310.48	776.20	1552.40	15524	5.93	5.98	5.99
7-6 to 8-0 . . . . (6/1/80)	39.97	79.94	119.91	159.88	319.76	799.40	1598.80	15988	5.93	6.00	5.99
8-0 to 8-6 . . . . (12/1/80)	41.17	82.34	123.51	164.68	329.36	823.40	1646.80	16468	5.94	6.02	5.99
8-6 to 9-0 . . . . (6/1/81)	42.41	84.82	127.23	169.64	339.28	848.20	1696.40	16964	5.94	5.99	5.98
9-0 to 9-6 . . . . (12/1/81)	43.68	87.36	131.04	174.72	349.44	873.60	1747.20	17472	5.95	6.00	5.98
9-6 to10-0 . . . . (6/1/82)	44.99	89.98	134.97	179.96	359.92	899.80	1799.60	17996	5.95	5.96	5.96
10-0 2/ . . . . . (12/1/82)	46.33	92.66	138.99	185.32	370.64	926.60	1853.20	18532	5.95 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1965, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 0 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.39 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 82

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1966

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after original maturity at 7 years 0 months)	(1) Redemption values during each half-year period (values increase on first day of period)* EXTENDED MATURITY PERIOD								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
									Percent	Percent	Percent
0-6 to 1-0 . . . 1/(12/1/73)	$26.63	$53.26	$79.89	$106.52	$213.04	$532.60	$1065.20	$10652	5.48	6.08	6.00
1-0 to 1-6 . . . . (6/1/74)	27.44	54.88	82.32	109.76	219.52	548.80	1097.60	10976	5.78	5.98	6.00
1-6 to 2-0 . . . . (12/1/74)	28.26	56.52	84.78	113.04	226.08	565.20	1130.40	11304	5.85	5.94	6.00
2-0 to 2-6 . . . . (6/1/75)	29.10	58.20	87.30	116.40	232.80	582.00	1164.00	11640	5.87	6.05	6.00
2-6 to 3-0 . . . . (12/1/75)	29.98	59.96	89.94	119.92	239.84	599.60	1199.20	11992	5.91	5.94	6.00
3-0 to 3-6 . . . . (6/1/76)	30.87	61.74	92.61	123.48	246.96	617.40	1234.80	12348	5.91	6.03	6.00
3-6 to 4-0 . . . . (12/1/76)	31.80	63.60	95.40	127.20	254.40	636.00	1272.00	12720	5.93	5.97	6.00
4-0 to 4-6 . . . . (6/1/77)	32.75	65.50	98.25	131.00	262.00	655.00	1310.00	13100	5.93	6.05	6.00
4-6 to 5-0 . . . . (12/1/77)	33.74	67.48	101.22	134.96	269.92	674.80	1349.60	13496	5.95	5.99	6.00
5-0 to 5-6 . . . . (6/1/78)	34.75	69.50	104.25	139.00	278.00	695.00	1390.00	13900	5.95	5.99	6.00
5-6 to 6-0 . . . . (12/1/78)	35.79	71.58	107.37	143.16	286.32	715.80	1431.60	14316	5.95	5.98	6.00
6-0 to 6-6 . . . . (6/1/79)	36.86	73.72	110.58	147.44	294.88	737.20	1474.40	14744	5.96	6.02	6.00
6-6 to 7-0 . . . . (12/1/79)	37.97	75.94	113.91	151.88	303.76	759.40	1518.80	15188	5.96	6.00	6.00
7-0 to 7-6 . . . . (6/1/80)	39.11	78.22	117.33	156.44	312.88	782.20	1564.40	15644	5.96	6.03	6.00
7-6 to 8-0 . . . . (12/1/80)	40.29	80.58	120.87	161.16	322.32	805.80	1611.60	16116	5.97	6.01	5.99
8-0 to 8-6 . . . . (6/1/81)	41.50	83.00	124.50	166.00	332.00	830.00	1660.00	16600	5.97	5.98	5.99
8-6 to 9-0 . . . . (12/1/81)	42.74	85.48	128.22	170.96	341.92	854.80	1709.60	17096	5.97	5.99	6.00
9-0 to 9-6 . . . . (6/1/82)	44.02	88.04	132.06	176.08	352.16	880.40	1760.80	17608	5.97	6.00	6.00
9-6 to10-0 . . . . (12/1/82)	45.34	90.68	136.02	181.36	362.72	906.80	1813.60	18136	5.97	6.00	6.00
10-0 2/ . . . . . (6/1/83)	46.70	93.40	140.10	186.80	373.60	934.00	1868.00	18680	5.97 3/	----	----

1/ Month, day, and year on which issues of June 1, 1966, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 0 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.44 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 83

BONDS BEARING ISSUE DATES FROM DEC. 1, 1966, THROUGH MAY 1, 1967

Period (years and months after original maturity at 7 years 0 months)		(1) Redemption values during each half-year period (values increase on first day of period) — EXTENDED MATURITY PERIOD **								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to extended maturity
Issue price		$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination		25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
										Percent	Percent	Percent
0-0 to 0-6 . . .	1/(12/1/73)	$26.07	$52.14	$78.21	$104.28	$208.56	$521.40	$1042.80	$10428	----	6.06	6.00
0-6 to 1-0	(6/1/74)	26.86	53.72	80.58	107.44	214.88	537.20	1074.40	10744	6.06	5.96	6.00
1-0 to 1-6	(12/1/74)	27.66	55.32	82.98	110.64	221.28	553.20	1106.40	11064	6.01	6.00	6.00
1-6 to 2-0	(6/1/75)	28.49	56.98	85.47	113.96	227.92	569.80	1139.60	11396	6.01	5.97	6.00
2-0 to 2-6	(12/1/75)	29.34	58.68	88.02	117.36	234.72	586.80	1173.60	11736	6.00	6.00	6.00
2-6 to 3-0	(6/1/76)	30.22	60.44	90.66	120.88	241.76	604.40	1208.80	12088	6.00	6.02	6.00
3-0 to 3-6	(12/1/76)	31.13	62.26	93.39	124.52	249.04	622.60	1245.20	12452	6.00	5.97	6.00
3-6 to 4-0	(6/1/77)	32.06	64.12	96.18	128.24	256.48	641.20	1282.40	12824	6.00	5.99	6.00
4-0 to 4-6	(12/1/77)	33.02	66.04	99.06	132.08	264.16	660.40	1320.80	13208	6.00	6.06	6.00
4-6 to 5-0	(6/1/78)	34.02	68.04	102.06	136.08	272.16	680.40	1360.80	13608	6.00	6.00	6.00
5-0 to 5-6	(12/1/78)	35.04	70.08	105.12	140.16	280.32	700.80	1401.60	14016	6.00	5.99	6.00
5-6 to 6-0	(6/1/79)	36.09	72.18	108.27	144.36	288.72	721.80	1443.60	14436	6.00	5.99	6.00
6-0 to 6-6	(12/1/79)	37.17	74.34	111.51	148.68	297.36	743.40	1486.80	14868	6.00	5.97	6.00
6-6 to 7-0	(6/1/80)	38.28	76.56	114.84	153.12	306.24	765.60	1531.20	15312	6.00	6.01	6.01
7-0 to 7-6	(12/1/80)	39.43	78.86	118.29	157.72	315.44	788.60	1577.20	15772	6.00	6.04	6.01
7-6 to 8-0	(6/1/81)	40.62	81.24	121.86	162.48	324.96	812.40	1624.80	16248	6.00	5.96	6.00
8-0 to 8-6	(12/1/81)	41.83	83.66	125.49	167.32	334.64	836.60	1673.20	16732	6.00	6.02	6.01
8-6 to 9-0	(6/1/82)	43.09	86.18	129.27	172.36	344.72	861.80	1723.60	17236	6.00	5.99	6.01
9-0 to 9-6	(12/1/82)	44.38	88.76	133.14	177.52	355.04	887.60	1775.20	17752	6.00	5.99	6.02
9-6 to 10-0	(6/1/83)	45.71	91.42	137.13	182.84	365.68	914.20	1828.40	18284	6.00	6.04	6.04
10-0 2/	(12/1/83)	47.09	94.18	141.27	188.36	376.72	941.80	1883.60	18836	6.00 3/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1966, enter each period. For subsequent issue months add the appropriate number of months.
2/ Extended maturity value reached at 17 years and 0 months after issue.
3/ Yield on purchase price from issue date to extended maturity date is 5.49 percent.

** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 84

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1967

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on first day of period)*								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period (a) to maturity
									Percent	Percent	Percent
6-6 to 7-0 ... 1/(12/1/73)	$24.88	$49.76	$74.64	$99.52	$199.04	$497.60	$995.20	$9952	4.40	11.41	11.41
7-0 2/ ..... (6/1/74)	26.30	52.60	78.90	105.20	210.40	526.00	1052.00	10520	4.89	----	----
(years and months after maturity date)	EXTENDED MATURITY PERIOD**										(b) to extended maturity
0-0 to 0-6 .... (6/1/74)	$26.30	$52.60	$78.90	$105.20	$210.40	$526.00	$1052.00	$10520	----	6.01	6.00
0-6 to 1-0 .... (12/1/74)	27.09	54.18	81.27	108.36	216.72	541.80	1083.60	10836	6.01	5.98	6.00
1-0 to 1-6 .... (6/1/75)	27.90	55.80	83.70	111.60	223.20	558.00	1116.00	11160	5.99	6.02	6.00
1-6 to 2-0 .... (12/1/75)	28.74	57.48	86.22	114.96	229.92	574.80	1149.60	11496	6.00	5.98	6.00
2-0 to 2-6 .... (6/1/76)	29.60	59.20	88.80	118.40	236.80	592.00	1184.00	11840	6.00	6.01	6.00
2-6 to 3-0 .... (12/1/76)	30.49	60.98	91.47	121.96	243.92	609.80	1219.60	12196	6.00	5.97	6.00
3-0 to 3-6 .... (6/1/77)	31.40	62.80	94.20	125.60	251.20	628.00	1256.00	12560	6.00	6.05	6.00
3-6 to 4-0 .... (12/1/77)	32.35	64.70	97.05	129.40	258.80	647.00	1294.00	12940	6.00	6.00	6.00
4-0 to 4-6 .... (6/1/78)	33.32	66.64	99.96	133.28	266.56	666.40	1332.80	13328	6.00	6.00	6.00
4-6 to 5-0 .... (12/1/78)	34.32	68.64	102.96	137.28	274.56	686.40	1372.80	13728	6.00	6.00	6.00
5-0 to 5-6 .... (6/1/79)	35.35	70.70	106.05	141.40	282.80	707.00	1414.00	14140	6.00	6.00	6.00
5-6 to 6-0 .... (12/1/79)	36.41	72.82	109.23	145.64	291.28	728.20	1456.40	14564	6.00	5.99	6.00
6-0 to 6-6 .... (6/1/80)	37.50	75.00	112.50	150.00	300.00	750.00	1500.00	15000	6.00	5.97	6.00
6-6 to 7-0 .... (12/1/80)	38.62	77.24	115.86	154.48	308.96	772.40	1544.80	15448	6.00	6.01	6.00
7-0 to 7-6 .... (6/1/81)	39.78	79.56	119.34	159.12	318.24	795.60	1591.20	15912	6.00	5.98	6.00
7-6 to 8-0 .... (12/1/81)	40.97	81.94	122.91	163.88	327.76	819.40	1638.80	16388	6.00	6.00	6.00
8-0 to 8-6 .... (6/1/82)	42.20	84.40	126.60	168.80	337.60	844.00	1688.00	16880	6.00	6.02	6.00
8-6 to 9-0 .... (12/1/82)	43.47	86.94	130.41	173.88	347.76	869.40	1738.80	17388	6.00	5.98	6.00
9-0 to 9-6 .... (6/1/83)	44.77	89.54	134.31	179.08	358.16	895.40	1790.80	17908	6.00	6.03	6.01
9-6 to 10-0 .... (12/1/83)	46.12	92.24	138.36	184.48	368.96	922.40	1844.80	18448	6.00	5.98	5.98
10-0 3/ ..... (6/1/84)	47.50	95.00	142.50	190.00	380.00	950.00	1900.00	19000	6.00 4/	----	----

1/ Month, day, and year on which issues of June 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.
2/ Maturity value reached at 7 years and 0 months after issue.
3/ Extended maturity value reached at 17 years and 0 months after issue.
4/ Yield on purchase price from issue date to extended maturity date is 5.54 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 85.

BONDS BEARING ISSUE DATES FROM DEC. 1, 1967, THROUGH MAY 1, 1968

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on first day of period)*								(2) From beginning of current maturity period to beginning of each ½-yr. pd.	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period (a) to maturity
									Percent	Percent	Percent
6-0 to 6-6 ... 1/(12/1/73)	$24.32	$48.64	$72.96	$97.28	$194.56	$486.40	$972.80	$9728	4.38	5.84	9.01
6-6 to 7-0 .... (6/1/74)	25.03	50.06	75.09	100.12	200.24	500.60	1001.20	10012	4.49	12.23	12.23
7-0 2/ ..... (12/1/74)	26.56	53.12	79.68	106.24	212.48	531.20	1062.40	10624	5.04	----	----
(years and months after maturity date)	EXTENDED MATURITY PERIOD **										(b) to extended maturity
0-0 to 0-6 .... (12/1/74)	$26.56	$53.12	$79.68	$106.24	$212.48	$531.20	$1062.40	$10624	----	6.02	6.00
0-6 to 1-0 .... (6/1/75)	27.36	54.72	82.08	109.44	218.88	547.20	1094.40	10944	6.02	5.99	6.00
1-0 to 1-6 .... (12/1/75)	28.18	56.36	84.54	112.72	225.44	563.60	1127.20	11272	6.01	5.96	6.00
1-6 to 2-0 .... (6/1/76)	29.02	58.04	87.06	116.08	232.16	580.40	1160.80	11608	5.99	6.00	6.00
2-0 to 2-6 .... (12/1/76)	29.89	59.78	89.67	119.56	239.12	597.80	1195.60	11956	5.99	6.02	6.00
2-6 to 3-0 .... (6/1/77)	30.79	61.58	92.37	123.16	246.32	615.80	1231.60	12316	6.00	5.98	6.00
3-0 to 3-6 .... (12/1/77)	31.71	63.42	95.13	126.84	253.68	634.20	1268.40	12684	6.00	6.05	6.00
3-6 to 4-0 .... (6/1/78)	32.67	65.34	98.01	130.68	261.36	653.40	1306.80	13068	6.00	6.00	6.00
4-0 to 4-6 .... (12/1/78)	33.65	67.30	100.95	134.60	269.20	673.00	1346.00	13460	6.00	5.94	6.00
4-6 to 5-0 .... (6/1/79)	34.65	69.30	103.95	138.60	277.20	693.00	1386.00	13860	6.00	6.00	6.00
5-0 to 5-6 .... (12/1/79)	35.69	71.38	107.07	142.76	285.52	713.80	1427.60	14276	6.00	6.05	6.00
5-6 to 6-0 .... (6/1/80)	36.77	73.54	110.31	147.08	294.16	735.40	1470.80	14708	6.00	5.98	6.00
6-0 to 6-6 .... (12/1/80)	37.87	75.74	113.61	151.48	302.96	757.40	1514.80	15148	6.00	5.97	6.00
6-6 to 7-0 .... (6/1/81)	39.00	78.00	117.00	156.00	312.00	780.00	1560.00	15600	6.00	6.00	6.00
7-0 to 7-6 .... (12/1/81)	40.17	80.34	120.51	160.68	321.36	803.40	1606.80	16068	6.00	6.02	6.00
7-6 to 8-0 .... (6/1/82)	41.38	82.76	124.14	165.52	331.04	827.60	1655.20	16552	6.00	5.99	6.00
8-0 to 8-6 .... (12/1/82)	42.62	85.24	127.86	170.48	340.96	852.40	1704.80	17048	6.00	6.01	6.00
8-6 to 9-0 .... (6/1/83)	43.90	87.80	131.70	175.60	351.20	878.00	1756.00	17560	6.00	6.01	6.00
9-0 to 9-6 .... (12/1/83)	45.22	90.44	135.66	180.88	361.76	904.40	1808.80	18088	6.00	5.97	5.99
9-6 to 10-0 .... (6/1/84)	46.57	93.14	139.71	186.28	372.56	931.40	1862.80	18628	6.00	6.01	6.01
10-0 3/ ..... (12/1/84)	47.97	95.94	143.91	191.88	383.76	959.40	1918.80	19188	6.00 4/	----	----

1/ Month, day, and year on which issues of Dec. 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.
2/ Maturity value reached at 7 years and 0 months after issue.
3/ Extended maturity value reached at 17 years and 0 months after issue.
4/ Yield on purchase price from issue date to extended maturity date is 5.60 percent.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.
** This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 6.00 percent.

TABLE 86

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1968

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. period	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to maturity
									Percent	Percent	Percent
5-6 to 6-0 . . . 1/(12/1/73)	$23.79	$47.58	$71.37	$95.16	$190.32	$475.80	$951.60	$9516	4.38	5.80	8.13
6-0 to 6-6 . . . . (6/1/74)	24.48	48.96	73.44	97.92	195.84	489.60	979.20	9792	4.49	5.96	9.30
6-6 to 7-0 . . . . . (12/1/74)	25.21	50.42	75.63	100.84	201.68	504.20	1008.40	10084	4.61	12.69	12.69
7-0 2/ . . . . . (6/1/75)	26.81	53.62	80.43	107.24	214.48	536.20	1072.40	10724	5.17	----	----

1/ Month, day, and year on which issues of June 1, 1968, enter each period. For subsequent issue months add the appropriate number of months.
2/ Maturity value reached at 7 years and 0 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 87

BONDS BEARING ISSUE DATES FROM DEC. 1, 1968, THROUGH MAY 1, 1969

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. period	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to maturity
									Percent	Percent	Percent
5-0 to 5-6 . . . 1/ (12/1/73)	$23.28	$46.56	$69.84	$93.12	$186.24	$465.60	$931.20	$9312	4.38	5.76	7.76
5-6 to 6-0 . . . . (6/1/74)	23.95	47.90	71.85	95.80	191.60	479.00	958.00	9580	4.50	5.93	8.44
6-0 to 6-6 . . . . (12/1/74)	24.66	49.32	73.98	98.64	197.28	493.20	986.40	9864	4.62	6.08	9.70
6-6 to 7-0 . . . . (6/1/75)	25.41	50.82	76.23	101.64	203.28	508.20	1016.40	10164	4.73	13.38	13.38
7-0 2/ . . . . . . (12/1/75)	27.11	54.22	81.33	108.44	216.88	542.20	1084.40	10844	5.34	----	----

1/ Month, day, and year on which issues of Dec. 1, 1968, enter each period. For subsequent issue months add the appropriate number of months.
2/ Maturity value reached at 7 years and 0 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 88

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1969

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
4-6 to 5-0 . . . 2/(12/1/73)	$23.16	$46.32	$69.48	$92.64	$185.28	$463.20	$926.40	$9264	4.75	6.22	8.17
5-0 to 5-6 . . . . (6/1/74)	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9552	4.90	6.28	9.35
5-6 to 5-10 . . . . (12/1/74)	24.63	49.26	73.89	98.52	197.04	492.60	985.20	9852	5.02	14.04	14.04
5-10 3/ . . . . . (4/1/75)	25.77	51.54	77.31	103.08	206.16	515.40	1030.80	10308	5.53	----	----

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of June 1, 1969, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 89

BONDS BEARING ISSUE DATES FROM DEC. 1, 1969, THROUGH MAY 1, 1970

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
4-0 to 4-6 . . . 2/(12/1/73)	$22.53	$45.06	$67.59	$90.12	$180.24	$450.60	$901.20	$9012	4.64	6.13	7.75
4-6 to 5-0 . . . . (6/1/74)	23.22	46.44	69.66	92.88	185.76	464.40	928.80	9288	4.81	6.20	8.36
5-0 to 5-6 . . . . (12/1/74)	23.94	47.88	71.82	95.76	191.52	478.80	957.60	9576	4.95	6.27	9.67
5-6 to 5-10 . . . . (6/1/75)	24.69	49.38	74.07	98.76	197.52	493.80	987.60	9876	5.07	14.88	14.88
5-10 3/ . . . . . (10/1/75)	25.90	51.80	77.70	103.60	207.20	518.00	1036.00	10360	5.62	----	----

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of Dec. 1, 1969, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 90

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1970

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
3-6 to 4-0 . . . 2/(12/1/73)	$21.93	$43.86	$65.79	$87.72	$175.44	$438.60	$877.20	$8772	4.53	5.93	7.46
4-0 to 4-6 . . . . (6/1/74)	22.58	45.16	67.74	90.32	180.64	451.60	903.20	9032	4.70	6.11	7.89
4-6 to 5-0 . . . . (12/1/74)	23.27	46.54	69.81	93.08	186.16	465.40	930.80	9308	4.86	6.19	8.56
5-0 to 5-6 . . . . (6/1/75)	23.99	47.98	71.97	95.96	191.92	479.80	959.60	9596	4.99	6.34	9.99
5-6 to 5-10 . . . . (12/1/75)	24.75	49.50	74.25	99.00	198.00	495.00	990.00	9900	5.11	15.59	15.59
5-10 3/ . . . . . (4/1/76)	26.02	52.04	78.06	104.08	208.16	520.40	1040.80	10408	5.70	----	----

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of June 1, 1970, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 91

BONDS BEARING ISSUE DATES FROM DEC. 1, 1970, THROUGH MAY 1, 1971

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
3-0 to 3-6 . . . 2/(12/1/73)	$21.39	$42.78	$64.17	$85.56	$171.12	$427.80	$855.60	$8556	4.44	5.52	7.12
3-6 to 4-0 . . . . (6/1/74)	21.98	43.96	65.94	87.92	175.84	439.60	879.20	8792	4.59	6.01	7.47
4-0 to 4-6 . . . . (12/1/74)	22.64	45.28	67.92	90.56	181.12	452.80	905.60	9056	4.77	6.10	7.87
4-6 to 5-0 . . . . (6/1/75)	23.33	46.66	69.99	93.32	186.64	466.60	933.20	9332	4.92	6.17	8.53
5-0 to 5-6 . . . . (12/1/75)	24.05	48.10	72.15	96.20	192.40	481.00	962.00	9620	5.04	6.32	9.96
5-6 to 5-10 . . . . (6/1/76)	24.81	49.62	74.43	99.24	198.48	496.20	992.40	9924	5.16	15.55	15.55
5-10 3/ . . . . . (10/1/76)	26.08	52.16	78.24	104.32	208.64	521.60	1043.20	10432	5.74	—	—

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of Dec. 1, 1970, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 92

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1971

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
2-6 to 3-0 . . . 2/(12/1/73)	$20.88	$41.76	$62.64	$83.52	$167.04	$417.60	$835.20	$8352	4.35	5.36	6.87
3-0 to 3-6 . . . . (6/1/74)	21.44	42.88	64.32	85.76	171.52	428.80	857.60	8576	4.52	5.60	7.13
3-6 to 4-0 . . . . (12/1/74)	22.04	44.08	66.12	88.16	176.32	440.80	881.60	8816	4.67	5.99	7.46
4-0 to 4-6 . . . . (6/1/75)	22.70	45.40	68.10	90.80	181.60	454.00	908.00	9080	4.84	6.08	7.87
4-6 to 5-0 . . . . (12/1/75)	23.39	46.78	70.17	93.56	187.12	467.80	935.60	9356	4.97	6.16	8.54
5-0 to 5-6 . . . . (6/1/76)	24.11	48.22	72.33	96.44	192.88	482.20	964.40	9644	5.09	6.30	9.99
5-6 to 5-10 . . . . (12/1/76)	24.87	49.74	74.61	99.48	198.96	497.40	994.80	9948	5.20	15.64	15.64
5-10 3/ . . . . . (4/1/77)	26.15	52.30	78.45	104.60	209.20	523.00	1046.00	10460	5.78	——	——

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of June 1, 1971, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 93

BONDS BEARING ISSUE DATES FROM DEC. 1, 1971, THROUGH MAY 1, 1972

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
2-0 to 2-6 . . . 2/(12/1/73)	$20.40	$40.80	$61.20	$81.60	$163.20	$408.00	$816.00	$8160	4.26	5.20	6.65
2-6 to 3-0 . . . . (6/1/74)	20.93	41.86	62.79	83.72	167.44	418.60	837.20	8372	4.45	5.35	6.86
3-0 to 3-6 . . . . (12/1/74)	21.49	42.98	64.47	85.96	171.92	429.80	859.60	8596	4.60	5.58	7.13
3-6 to 4-0 . . . . (6/1/75)	22.09	44.18	66.27	88.36	176.72	441.80	883.60	8836	4.74	5.98	7.47
4-0 to 4-6 . . . . (12/1/75)	22.75	45.50	68.25	91.00	182.00	455.00	910.00	9100	4.89	6.07	7.87
4-6 to 5-0 . . . . (6/1/76)	23.44	46.88	70.32	93.76	187.52	468.80	937.60	9376	5.02	6.23	8.56
5-0 to 5-6 . . . . (12/1/76)	24.17	48.34	72.51	96.68	193.36	483.40	966.80	9668	5.14	6.29	9.96
5-6 to 5-10 . . . . (6/1/77)	24.93	49.86	74.79	99.72	199.44	498.60	997.20	9972	5.25	15.60	15.60
5-10 3/ . . . . . (10/1/77)	26.21	52.42	78.63	104.84	209.68	524.20	1048.40	10484	5.83	----	----

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of Dec. 1, 1971, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 94

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1972

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
1-6 to 2-0 . . . 2/(12/1/73)	$19.95	$39.90	$59.85	$79.80	$159.60	$399.00	$798.00	$7980	4.18	5.01	6.46
2-0 to 2-6 . . . . (6/1/74)	20.45	40.90	61.35	81.80	163.60	409.00	818.00	8180	4.39	5.18	6.65
2-6 to 3-0 . . . . (12/1/74)	20.98	41.96	62.94	83.92	167.84	419.60	839.20	8392	4.55	5.43	6.87
3-0 to 3-6 . . . . (6/1/75)	21.55	43.10	64.65	86.20	172.40	431.00	862.00	8620	4.69	5.48	7.13
3-6 to 4-0 . . . . (12/1/75)	22.14	44.28	66.42	88.56	177.12	442.80	885.60	8856	4.81	6.05	7.48
4-0 to 4-6 . . . . (6/1/76)	22.81	45.62	68.43	91.24	182.48	456.20	912.40	9124	4.96	6.05	7.88
4-6 to 5-0 . . . . (12/1/76)	23.50	47.00	70.50	94.00	188.00	470.00	940.00	9400	5.08	6.21	8.56
5-0 to 5-6 . . . . (6/1/77)	24.23	48.46	72.69	96.92	193.84	484.60	969.20	9692	5.19	6.27	9.99
5-6 to 5-10 . . . . (12/1/77)	24.99	49.98	74.97	99.96	199.92	499.80	999.60	9996	5.29	15.68	15.68
5-10 3/ . . . . . (4/1/78)	26.28	52.56	78.84	105.12	210.24	525.60	1051.20	10512	5.87	----	----

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of June 1, 1972, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 95

BONDS BEARING ISSUE DATES FROM DEC. 1, 1972, THROUGH MAY 1, 1973

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
1-0 to 1-6 . . . 2/(12/1/73)	$19.51	$39.02	$58.53	$78.04	$156.08	$390.20	$780.40	$7804	4.01	5.02	6.31
1-6 to 2-0 . . . . (6/1/74)	20.00	40.00	60.00	80.00	160.00	400.00	800.00	8000	4.35	5.00	6.46
2-0 to 2-6 . . . . (12/1/74)	20.50	41.00	61.50	82.00	164.00	410.00	820.00	8200	4.51	5.17	6.65
2-6 to 3-0 . . . . (6/1/75)	21.03	42.06	63.09	84.12	168.24	420.60	841.20	8412	4.64	5.42	6.87
3-0 to 3-6 . . . . (12/1/75)	21.60	43.20	64.80	86.40	172.80	432.00	864.00	8640	4.77	5.56	7.13
3-6 to 4-0 . . . . (6/1/76)	22.20	44.40	66.60	88.80	177.60	444.00	888.00	8880	4.88	5.95	7.46
4-0 to 4-6 . . . . (12/1/76)	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9144	5.02	6.12	7.88
4-6 to 5-0 . . . . (6/1/77)	23.56	47.12	70.68	94.24	188.48	471.20	942.40	9424	5.14	6.20	8.54
5-0 to 5-6 . . . . (12/1/77)	24.29	48.58	72.87	97.16	194.32	485.80	971.60	9716	5.25	6.26	9.96
5-6 to 5-10 . . . . (6/1/78)	25.05	50.10	75.15	100.20	200.40	501.00	1002.00	10020	5.34	15.65	15.65
5-10 3/ . . . . . (10/1/78)	26.34	52.68	79.02	105.36	210.72	526.80	1053.60	10536	5.91	----	----

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of Dec. 1, 1972, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

TABLE 96

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1973

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000			
Period (years and months after issue)	(1) Redemption values during each half-year period 1/ (values increase on first day of period)*								(2) From issue date to beginning of each ½-yr. pd. 1/	(3) From beginning of each ½-yr. pd. 1/ to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. pd. 1/ to maturity
									Percent	Percent	Percent
0-6 to 1-0 . . . 2/(12/1/73)	$19.05	$38.10	$57.15	$76.20	$152.40	$381.00	$762.00	$7620	3.20	5.35	6.21
1-0 to 1-6 . . . . (6/1/74)	19.56	39.12	58.68	78.24	156.48	391.20	782.40	7824	4.27	5.01	6.30
1-6 to 2-0 . . . . (12/1/74)	20.05	40.10	60.15	80.20	160.40	401.00	802.00	8020	4.52	4.99	6.45
2-0 to 2-6 . . . . (6/1/75)	20.55	41.10	61.65	82.20	164.40	411.00	822.00	8220	4.64	5.16	6.64
2-6 to 3-0 . . . . (12/1/75)	21.08	42.16	63.24	84.32	168.64	421.60	843.20	8432	4.74	5.41	6.87
3-0 to 3-6 . . . . (6/1/76)	21.65	43.30	64.95	86.60	173.20	433.00	866.00	8660	4.85	5.54	7.12
3-6 to 4-0 . . . . (12/1/76)	22.25	44.50	66.75	89.00	178.00	445.00	890.00	8900	4.95	6.02	7.47
4-0 to 4-6 . . . . (6/1/77)	22.92	45.84	68.76	91.68	183.36	458.40	916.80	9168	5.08	6.11	7.86
4-6 to 5-0 . . . . (12/1/77)	23.62	47.24	70.86	94.48	188.96	472.40	944.80	9448	5.20	6.18	8.52
5-0 to 5-6 . . . . (6/1/78)	24.35	48.70	73.05	97.40	194.80	487.00	974.00	9740	5.30	11.09	9.94
5-6 to 5-10 . . . . (12/1/78)	25.70	51.40	77.10	102.80	205.60	514.00	1028.00	10280	5.82	8.23	8.23
5-10 3/ . . . . . (4/1/79)	26.40	52.80	79.20	105.60	211.20	528.00	1056.00	10560	5.95	—	—

1/ 4-month period in the case of the 5½-year to 5-year and 10-month period.
2/ Month, day, and year on which issues of June 1, 1973, enter each period. For subsequent issue months add the appropriate number of months.
3/ Maturity value reached at 5 years and 10 months after issue.

* For earlier redemption values and yields see appropriate table in Department Circular 653, 8th Revision, as amended and supplemented.

APPENDIX

Summary of investment yields to maturity and extended maturity dates under regulations prescribed for Series E savings bonds with issue dates from May 1, 1941

Issues	Term to maturity (years and months)	Yield 1/ during maturity period							Yield 1/ during extended maturity period (10 years)							Yield 1/ during second extended maturity period (10 years)						Yield 1/ during third (and final) extended maturity period - (10 years)	
			1959	1965	1968	1969	1970	1973		1959	1965	1968	1969	1970	1973		1965	1968	1969	1970	1973		1973
5/41- 4/42	10- 0	2.90							2.90	+.60						3.75e	+.40	+.10b	5.00	+.50e		5.50e	+.50e
5/42-11/43	10- 0	2.90							3.00e	+.50						3.75e	+.40	+.10b	5.00	+.50e		5.50e	+.50e
12/43- 5/44	10- 0	2.90							3.00e	+.50						3.75e	+.40	+.10b	5.00	+.50e		6.00e 2/	
6/44-11/45	10- 0	2.90							3.00e	+.50						3.75e	+.40	+.10b	5.00	+.50e	+.50e		
12/45- 5/48	10- 0	2.90							3.00e	+.50						4.15e		+.10b	5.00	+.50e	+.50e		
6/48- 5/49	10- 0	2.90							3.00e	+.50						4.25b			5.00	+.50e	+.50e		
6/49-11/49	10- 0	2.90							3.75		+.40	+.10b				5.00e				+.50e	+.50e		
12/49- 5/50	10- 0	2.90	+.60						3.75		+.40	+.10b	5.00			5.00e				+.50e	+.50e		
6/50-11/50	10- 0	2.90	+.60						3.75		+.40	+.10b	5.00			5.50e					+.50e		
12/50- 4/52	10- 0	2.90	+.60						3.75		+.40	+.10b	5.00	+.50e		5.50e					+.50e		
5/52- 3/54	9- 8	3.00	+.50						3.75		+.40	+.10b	5.00	+.50e		5.50e					+.50e		
4/54- 9/54	9- 8	3.00	+.50						3.75		+.40	+.10b	5.00	+.50e		6.00e 2/							
10/54- 5/55	9- 8	3.00	+.50						3.75		+.40	+.10b	5.00	+.50e	+.50e	6.00e 2/							
6/55- 3/56	9- 8	3.00	+.50						3.75		+.40	+.10b	5.00	+.50e	+.50e								
4/56-11/56	9- 8	3.00	+.50						4.15e			+.10b	5.00	+.50e	+.50e								
12/56- 1/57	9- 8	3.00	+.50	+.40					4.15e			+.10b	5.00	+.50e	+.50e								
2/57- 5/57	8-11	3.25	+.50						4.15e			+.10b	5.00	+.50e	+.50e								
6/57- 5/59	8-11	3.25	+.50	+.40					4.15e			+.10b	5.00	+.50e	+.50e								
6/59- 5/60	7- 9	3.75		+.40					4.15e			+.10b	5.00	+.50e	+.50e								
6/60- 5/61	7- 9	3.75		+.40					4.25b				5.00	+.50e	+.50e								
6/61- 8/61	7- 9	3.75		+.40	+.10b				4.25b				5.00	+.50e	+.50e								
9/61- 8/62	7- 9	3.75		+.40	+.10b				5.00e					+.50e	+.50e								
9/62- 5/63	7- 9	3.75		+.40	+.10b	5.00			5.50e						+.50e								
6/63-11/65	7- 9	3.75		+.40	+.10b	5.00	+.50b		5.50e						+.50e								
12/65-11/66	7- 0	4.15			+.10b	5.00	+.50b		5.50e						+.50e								
12/66- 5/67	7- 0	4.15			+.10b	5.00	+.50b		6.00e 2/														
6/67- 5/68	7- 0	4.15			+.10b	5.00	+.50b	+.50e	6.00e 2/														
6/68- 5/69	7- 0	4.25b				5.00	+.50b	+.50e															
6/69- 5/70	5-10	5.00					+.50b	+.50e															
6/70-11/73	5-10	5.50b						+.50e															
12/73-	5- 0	6.00																					

1/ All yields are in terms of percent per annum, compounded semiannually. The first figure in each maturity period is the overall yield for that period at time of entry into period. Crediting of accruals is on a graduated basis unless otherwise indicated, the full rate being credited only upon holding to end of period (lesser credit if redeemed earlier). An "e" indicates accrual on an approximately level basis. A "b" indicates increased accrual on a bonus basis; that is, full rate is credited only if bond is held to end of period (no increase if redeemed earlier). Rate increases within periods took effect at beginning of first full half-year interest accrual period starting on or after effective date as follows:

1959 - graduated improvements in rate to next maturity beginning June 1, 1959.
1965 - graduated improvement in rate to next maturity beginning Dec. 1, 1965.
1968 - bonus improvement in rate to next maturity beginning June 1, 1968, which took effect as early as Mar. 1, 1968, in some cases, but did not apply to first accrual period if it was less than a half-year.
1969 - maximum rate to next maturity beginning June 1, 1969.
1970 - bonus and level improvements in rate to next maturity beginning June 1, 1970.
1973 - level improvement in rate to next maturity beginning Dec. 1, 1973.

2/ Yield does not apply if prevailing rate for Series E bonds being issued at time extension begins is different from 6.00 percent.

Exhibit 7.—Department Circular No. 905, December 1, 1973, Sixth Revision, offering of United States savings bonds, Series H

DEPARTMENT OF THE TREASURY,
Washington, D.C., March 18, 1974.

Department of the Treasury Circular No. 905, Fifth Revision, dated December 12, 1969, as amended and supplemented, including the tables incorporated therein (31 CFR 332), is hereby revised and amended and issued as Department of the Treasury Circular No. 905, Sixth Revision, effective as of December 1, 1973.

AUTHORITY: Sec. 22, Second Liberty Bond Act, as amended, 49 Stat. 21, as amended, (31 U.S.C. 757c), and (5 U.S.C. 301).

§ 332.1 Offering of bonds.

The Secretary of the Treasury hereby offers for sale to the people of the United States, United States Savings Bonds of Series H, hereinafter generally referred to as "Series H bonds" or "bonds." This offer, effective as of December 1, 1973, will continue until terminated by the Secretary of the Treasury.

§ 332.2 Description of bonds.

(a) *General.* Series H bonds bear a facsimile of the signature of the Secretary of the Treasury and of the Seal of the Department of the Treasury. They are issued only in registered form and are nontransferable.

(b) *Denominations and prices.* Series H bonds are issued at face (par) amount and are available in denominations of $500, $1,000, $5,000 and $10,000.

(c) *Inscription and issue.* At the time of issue the issuing agent will (1) inscribe on the face of each Series H bond the name, social security number, and address of the owner, and the name of the beneficiary,[1] if any, or the name, social security number and address of the first-named coowner and the name of the other coowner,[1] (2) enter in the upper right-hand portion of the bond the issue date, and (3) imprint the agent's dating stamp in the lower right-hand portion to show the date the bond is actually inscribed. A Series H bond shall be valid only if an authorized issuing agent receives payment therefor and duly inscribes, dates and stamps it.

(d) *Term.* A Series H bond will be dated as of the first day of the month in which payment therefor is received by an agent authorized to issue the bonds. This date is the issue date and the bond will mature and be payable 10 years from the issue date. The bond may not be called for redemption prior to maturity or the end of any extended maturity period (see § 332.8(a)(3)). The bond may be redeemed at par after 6 months from the issue date. However, the Department may require reasonable notice of presentation for redemption before the maturity date or any authorized extended maturity date.

(e) *Interest (investment yield).* The interest on a Series H bond will be paid semiannually by check drawn to the order of the registered owner or coowners, beginning 6 months from issue date. Interest payments will be on a graduated scale, fixed to produce an investment yield of approximately 6 percent per annum, compounded semiannually, if the bond is held to maturity but the yield will be less if the bond is redeemed prior thereto. See Table 1. Interest will cease at maturity, or at the end of the extended maturity period, or if redeemed before the maturity or extended maturity date, at the end of the interest period next preceding the date of redemption. However, if the date of redemption falls on an interest payment date, interest will cease on that date.

§ 332.3 Governing regulations.

Series H bonds are subject to the regulations of the Department of the Treasury, now or hereafter prescribed, governing United States Savings Bonds, contained in Department of the Treasury Circular No. 530, current revision (31 CFR Part 315),[2] except as otherwise specifically provided herein.

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[1] The title of a female registrant designated as beneficiary or second-named coowner need not be furnished if her social security number is provided. If so requested, both title and number may be inscribed.

[2] Copies may be obtained from any Federal Reserve Bank or Branch or the Bureau of the Public Debt, Washington, D.C. 20226, or its Chicago Office, 536 South Clark Street, Chicago, Illinois 60605.

§ 332.4 Registration.

(a) *General.* Generally, only residents of the United States, its territories and possessions, the Commonwealth of Puerto Rico, the Canal Zone and citizens of the United States temporarily residing abroad are eligible to be named as owners of Series H bonds. The bonds may be registered in the names of natural persons in their own right as provided in paragraph (b) of this section, and in the names and titles or capacities of fiduciaries and organizations as provided in paragraph (c) of this section. Full information regarding authorized forms of registration and restrictions with respect thereto will be found in the governing regulations.

(b) *Natural persons in their own right.* The bonds may be registered in the names of natural persons (whether adults or minors) in their own right, in single ownership, coownership, and beneficiary forms.

(c) *Others.* The bonds may be registered in single ownership form in the names of fiduciaries and private and public organizations, as follows:

(1) *Fiduciaries.* In the names of and showing the titles or capacities of any persons or organizations, public or private, as fiduciaries (including trustees, legal guardians or similar representatives, and certain custodians) but not where the fiduciary would hold the bonds merely or principally as security for the performance of a duty, obligation, or service.

(2) *Private and public organizations.* In the names of private or public organizations (including private corporations, partnerships, and unincorporated associations, and States, counties, public corporations, and other public bodies), in their own right, but not in the names of commercial banks.[3]

§ 332.5 Limitation on holdings.

The amount of Series H bonds originally issued during any 1 calendar year that may be held by any one person, at any one time, computed in accordance with the governing regulations, is limited, as follows:

(a) *General limitation.* $10,000 (face amount) for the calendar year 1974 and each calendar year thereafter.

(b) *Special limitation for gifts to exempt organizations under 26 CFR 1.501 (c) (3)-1.* $200,000 (face amount) for bonds received as gifts by an organization which at the time of purchase is an exempt organization under the terms of 26 CFR 1.501(c) (3)-1.

(c) *Exchange pursuant to Department of the Treasury Circular No. 1036, as amended.* Series H bonds issued in an exchange pursuant to the provisions of Department of the Treasury Circular No. 1036 (31 CFR Part 339), as in effect at the time of the exchange, are exempt from the annual limitation.

§ 332.6 Purchase of bonds.

(a) *Issuing agents.* Only the Federal Reserve Banks and Branches and the Department of the Treasury are authorized to act as official issuing agents for the sale of Series H bonds. However, financial institutions may forward applications for purchase of the bonds. The date an issuing agent receives the application and payment will govern the issue date of the bond purchased.

(b) *Application for purchase and remittance.* The applicant for purchase of Series H bonds should furnish (1) instructions for registration of the bonds to be issued, which must be in an authorized form, (2) the appropriate social security or employer identification number, (3) the post office address of the owner or first-named coowner, and (4) the address(es) for delivery of the bonds and for mailing checks in payment of interest, if other than that of the owner or first-named coowner. The application should be forwarded to a Federal Reserve Bank or Branch, or the Department of the Treasury, Washington, D.C. 20226, accompanied by a remittance to cover the purchase price. Any form of exchange, including personal checks, will be accepted subject to collection. Checks or other forms of exchange should be drawn to the order of the Federal Reserve Bank or the United States Treasury, as the case may be. Checks payable by endorsement are not acceptable. Any depositary qualified pursuant to Department of the Treasury Circular No. 92, current revision (31 CFR Part 203), will be permitted to make payment by credit for bonds applied for on behalf of its customers up

[3] For this purpose, commercial banks (as defined in § 315.7, Department of the Treasury Circular No. 530, current revision) are those accepting demand deposits.

to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

§ 332.7 Delivery of bonds.

Authorized issuing agents will deliver Series H bonds either over-the-counter in person, or by mail at the risk and expense of the United States, to the address given by the purchaser, but only within the United States, its territories and possessions, the Commonwealth of Puerto Rico and the Canal Zone. No mail deliveries elsewhere will be made. If purchased by citizens of the United States temporarily residing abroad, the bonds will be delivered at such address in the United States as the purchaser directs.

§ 332.8 Extended terms and improved yields for outstanding bonds.

(a) *Extended maturity periods*—(1) *General.* The terms "extended maturity period" and "second extended maturity period," when used herein, refer to the intervals after the original maturity dates during which owners may retain their bonds and continue to earn interest thereon. No special action is required of owners desiring to take advantage of any extensions heretofore or herein granted.[4]

(2) *Bonds with issue dates June 1, 1952, through January 1, 1957.* Owners of Series H bonds with issue dates of June 1, 1952, through January 1, 1957, may retain their bonds for a second extended maturity period of 10 years.

(3) *Bonds with issue dates February 1, 1957, or thereafter.* Owners of Series H bonds with issue dates of February 1, 1957, or thereafter, may retain their bonds for an extended maturity period of 10 years.

(b) *Improved yields*[5]—(1) *Outstanding bonds.* The investment yield on all outstanding Series H bonds is hereby increased as follows:

(i) *Bonds in original maturity period on December 1, 1973.* By approximately ½ of 1 percent per annum, compounded semiannually, for the remaining period to the maturity date. The increase will be included in the interest checks issued on or after June 1, 1974.

(ii) *Bonds in an extended or second extended maturity period on December 1, 1973.* By approximately ½ of 1 percent per annum, compounded semiannually, for the remaining period to the extended maturity date or second extended maturity date, as the case may be. The increase will be included in the interest checks issued on or after June 1, 1974.

(iii) *Bonds entering an extended or second extended maturity period on December 1, 1973, or January 1, 1974.* To 6 percent per annum, compounded semiannually, for the extended or second extended maturity period.

(2) *Other authorized extension periods.* The investment yield for any authorized extension period, other than as set forth in paragraph (b) (1) of this section, will be at the rate in effect for Series H bonds being issued at the time the outstanding bonds reach their next maturity dates. The tables of checks and investment yields published herein will not apply if at the time an extension begins the rate is different from 6 percent.

§ 332.9 Taxation.

The income derived from Series H 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, by any of the possessions of the United States, or by any local taxing authority.

§ 332.10 Payment or redemption.

A Series H bond may be redeemed at par at any time after 6 months from the issue date. The bond must be presented and surrendered, with a duly executed request for payment, to (a) a Federal Reserve Bank or Branch, (b) the Department of the Treasury, Washington, D.C. 20226, or (c) the Bureau of the Public Debt, 536 South Clark Street, Chicago, Illinois 60605. A bond received by an agent during the calendar month preceding an interest payment date may not be redeemed until that date.

[4] The tables incorporated herein, arranged according to issue dates, show the current schedules of interest payments and investment yields.

[5] See Appendix for summary of investment yields to the maturity and extended maturity dates under regulations heretofore and herein prescribed.

§ 332.11 Reservation as to issue of bonds.

The Secretary of the Treasury reserves the right to reject any application for Series H bonds, in whole or in part, and to refuse to issue or permit to be issued hereunder any such bonds in any case or any class or classes of cases if he deems such action to be in the public interest, and his action in such respect shall be final.

§ 332.12 Preservation of rights.

Nothing contained herein shall limit or restrict rights which owners of Series H bonds heretofore issued have acquired under offers previously in force.

§ 332.13 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 issue, delivery, redemption, and payment of Series H bonds.

§ 332.14 Reservation as to terms of offer.

The Secretary of the Treasury may at any time or from time to time supplement or amend the terms of this offering of bonds, or of any amendments or supplements thereto.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 1

BONDS BEARING ISSUE DATES BEGINNING DEC. 1, 1973

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE 1/	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
.5 YEARS	$10.50	$21.00	$105.00	$210.00	4.20	4.20	6.12
1.0 YEARS	14.50	29.00	145.00	290.00	4.99	5.80	6.15
1.5 YEARS	14.50	29.00	145.00	290.00	5.25	5.80	6.17
2.0 YEARS	14.50	29.00	145.00	290.00	5.38	5.80	6.20
2.5 YEARS	14.50	29.00	145.00	290.00	5.46	5.80	6.24
3.0 YEARS	14.50	29.00	145.00	290.00	5.51	5.80	6.28
3.5 YEARS	14.50	29.00	145.00	290.00	5.55	5.80	6.32
4.0 YEARS	14.50	29.00	145.00	290.00	5.58	5.80	6.37
4.5 YEARS	14.50	29.00	145.00	290.00	5.60	5.80	6.44
5.0 YEARS	14.50	29.00	145.00	290.00	5.62	5.80	6.51
5.5 YEARS	16.28	32.56	162.80	325.60	5.69	6.51	6.51
6.0 YEARS	16.28	32.56	162.80	325.60	5.75	6.51	6.51
6.5 YEARS	16.28	32.56	162.80	325.60	5.80	6.51	6.51
7.0 YEARS	16.28	32.56	162.80	325.60	5.84	6.51	6.51
7.5 YEARS	16.28	32.56	162.80	325.60	5.87	6.51	6.51
8.0 YEARS	16.28	32.56	162.80	325.60	5.91	6.51	6.51
8.5 YEARS	16.28	32.56	162.80	325.60	5.93	6.51	6.51
9.0 YEARS	16.28	32.56	162.80	325.60	5.96	6.51	6.51
9.5 YEARS	16.28	32.56	162.80	325.60	5.98	6.51	6.51
10.0 YEARS 2/	16.28	32.56	162.80	325.60	6.00	6.51	----

1/ AT ALL TIMES, EXCEPT THAT BOND IS NOT REDEEMABLE DURING FIRST 6 MONTHS.
2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

TABLE 2

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEP. 1, 1952

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — SECOND EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO 2ND EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
2.0 YEARS . . 1/ (2/1/74)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
2.5 YEARS . . . . (8/1/74)	15.00	30.00	150.00	300.00	5.59	6.00	6.00
3.0 YEARS . . . . (2/1/75)	15.00	30.00	150.00	300.00	5.66	6.00	6.00
3.5 YEARS . . . . (8/1/75)	15.00	30.00	150.00	300.00	5.70	6.00	6.00
4.0 YEARS . . . . (2/1/76)	15.00	30.00	150.00	300.00	5.74	6.00	6.00
4.5 YEARS . . . . (8/1/76)	15.00	30.00	150.00	300.00	5.76	6.00	6.00
5.0 YEARS . . . . (2/1/77)	15.00	30.00	150.00	300.00	5.78	6.00	6.00
5.5 YEARS . . . . (8/1/77)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
6.0 YEARS . . . . (2/1/78)	15.00	30.00	150.00	300.00	5.81	6.00	6.00
6.5 YEARS . . . . (8/1/78)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
7.0 YEARS . . . . (2/1/79)	15.00	30.00	150.00	300.00	5.84	6.00	6.00
7.5 YEARS . . . . (8/1/79)	15.00	30.00	150.00	300.00	5.84	6.00	6.00
8.0 YEARS . . . . (2/1/80)	15.00	30.00	150.00	300.00	5.85	6.00	6.00
8.5 YEARS . . . . (8/1/80)	15.00	30.00	150.00	300.00	5.86	6.00	6.00
9.0 YEARS . . . . (2/1/81)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
9.5 YEARS . . . . (8/1/81)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
10.0 YEARS 2/. . . (2/1/82)	15.00	30.00	150.00	300.00	3/ 5.88	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1952. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY IS 4.04%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 3

BONDS BEARING ISSUE DATES FROM OCT. 1, 1952 THROUGH MAR. 1, 1953

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * SECOND EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO 2ND EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
1.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
2.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.62	6.00	6.00
2.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.69	6.00	6.00
3.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.74	6.00	6.00
3.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.77	6.00	6.00
4.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
4.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.82	6.00	6.00
5.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
5.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.85	6.00	6.00
6.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.86	6.00	6.00
6.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
7.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.88	6.00	6.00
7.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.88	6.00	6.00
8.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
8.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
9.0 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
9.5 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
10.0 YEARS 2/. . . (6/1/82)	15.00	30.00	150.00	300.00	3/ 5.91	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF OCT. 1, 1952. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY DATE ON BONDS DATED: OCT. 1 AND NOV. 1, 1952 IS 4.07%; DEC. 1, 1952 THROUGH MAR. 1, 1953 IS 4.08%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 4

BONDS BEARING ISSUE DATES FROM APR. 1 THROUGH SEP. 1, 1953

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — SECOND EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO 2ND EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
1.0 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
1.5 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.66	6.00	6.00
2.0 YEARS . . . . (12/1/74	15.00	30.00	150.00	300.00	5.74	6.00	6.00
2.5 YEARS . . . . (6/1/75	15.00	30.00	150.00	300.00	5.79	6.00	6.00
3.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.82	6.00	6.00
3.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.85	6.00	6.00
4.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.86	6.00	6.00
4.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.88	6.00	6.00
5.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
5.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
6.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
6.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.91	6.00	6.00
7.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
7.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
8.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
8.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
9.0 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
9.5 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
10.0 YEARS 2/. . . (12/1/82)	15.00	30.00	150.00	300.00	3/ 5.94	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF APR. 1, 1953. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY DATE ON BONDS DATED: APR. 1 AND MAY 1, 1953 IS 4.11%; JUNE 1 THROUGH SEP. 1, 1953 IS 4.12%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 5

BONDS BEARING ISSUE DATES FROM OCT. 1, 1953 THROUGH MAR. 1, 1954

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION — SECOND EXTENDED MATURITY PERIOD **				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO 2ND EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
1.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.75	6.00	6.00
1.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
2.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
2.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
3.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.91	6.00	6.00
3.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
4.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
4.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.94	6.00	6.00
5.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.94	6.00	6.00
5.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.95	6.00	6.00
6.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.95	6.00	6.00
6.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.95	6.00	6.00
7.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
7.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
8.0 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
8.5 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
9.0 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
9.5 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	5.97	6.00	6.00
10.0 YEARS 2/. . . (6/1/83)	15.00	30.00	150.00	300.00	3/ 5.97	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF OCT. 1, 1953. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY DATE ON BONDS DATED: OCT. 1 AND NOV. 1, 1953 IS 4.15%; DEC. 1, 1953 THROUGH MAR. 1, 1954 IS 4.16%.

** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 6

BONDS BEARING ISSUE DATES FROM APR. 1 THROUGH SEP. 1, 1954

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 9 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE (A) TO 1ST EXTENDED MATURITY
	EXTENDED MATURITY PERIOD						
					PERCENT	PERCENT	PERCENT
10.0 YEARS 1/. .2/ (12/1/73)	$18.41	$36.82	$184.10	$368.20	3/ 4.46	7.36	----
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	SECOND EXTENDED MATURITY PERIOD **						(B) TO 2ND EXTENDED MATURITY
.5 YEARS . . . . (6/1/74)	$15.00	$30.00	$150.00	$300.00	6.00	6.00	6.00
1.0 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
1.5 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.0 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.5 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.0 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.5 YEARS . . . . (6/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
10.0 YEARS 4/. . . (12/1/83)	15.00	30.00	.50.00	300.00	5/ 6.00	6.00	----

1/ FIRST EXTENDED MATURITY REACHED AT 19 YEARS AND 8 MONTHS AFTER ISSUE DATE.
2/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF APR. 1, 1954. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.
3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO FIRST EXTENDED MATURITY DATE ON BONDS DATED: APR. 1 AND MAY 1, 1954 IS 3.72%; JUNE 1, THROUGH SEP. 1, 1954 IS 3.74%.
4/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.
5/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY DATE ON BONDS DATED: APR. 1 AND MAY 1, 1954 IS 4.19%; JUNE 1 THROUGH SEP. 1, 1954 IS 4.20%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.
** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 7

BONDS BEARING ISSUE DATES FROM OCT. 1, 1954 THROUGH MAR. 1, 1955

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 9 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE (A) TO 1ST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
9.5 YEARS . . .1/ (12/1/73)	$15.21	$30.42	$152.10	$304.20	4.42	6.08	8.08
10.0 YEARS 2/. . . (6/1/74)	20.21	40.42	202.10	404.20	3/ 4.56	8.08	----
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	SECOND EXTENDED MATURITY PERIOD **						(B) TO 2ND EXTENDED MATURITY
.5 YEARS . . . . (12/1/74)	$15.00	$30.00	$150.00	$300.00	6.00	6.00	6.00
1.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
1.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.0 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.5 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.0 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.5 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.0 YEARS . . . . (6/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.5 YEARS . . . . (12/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
10.0 YEARS 4/. . . (6/1/84)	15.00	30.00	150.00	300.00	5/ 6.00	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF OCT. 1, 1954. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ FIRST EXTENDED MATURITY REACHED AT 19 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO FIRST EXTENDED MATURITY DATE ON BONDS DATED OCT. 1 AND NOV. 1, 1954 IS 3.78%; DEC. 1, 1954 THROUGH MAR. 1, 1955 IS 3.79%.

4/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.

5/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY DATE ON BONDS DATED: OCT. 1 AND NOV. 1, 1954 IS 4.23%; DEC. 1, 1954 THROUGH MAR. 1, 1955 IS 4.24%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 8

BONDS BEARING ISSUE DATES FROM APR. 1 THROUGH SEP. 1, 1955

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 9 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE (A) TO 1ST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
9.0 YEARS . . . 1/ (12/1/73)	$15.01	$30.02	$150.10	$300.20	4.43	6.00	7.42
9.5 YEARS . . . . (6/1/74)	16.56	33.12	165.60	331.20	4.52	6.62	8.24
10.0 YEARS 2/. . . (12/1/74)	20.61	41.22	206.10	412.20	3/ 4.66	8.24	----
PERIOD OF TIME BOND IS HELD AFTER EXTENDED MATURITY AT 19 YEARS, 8 MONTHS	SECOND EXTENDED MATURITY PERIOD **						(B) TO 2ND EXTENDED MATURITY
.5 YEARS . . . . (6/1/75)	$15.00	$30.00	$150.00	$300.00	6.00	6.00	6.00
1.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
1.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.0 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.5 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.0 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.5 YEARS . . . . (6/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.0 YEARS . . . . (12/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.5 YEARS . . . . (6/1/84)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
10.0 YEARS 4/. . . (12/1/84)	15.00	30.00	150.00	300.00	5/ 6.00	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF APR. 1, 1955. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.
2/ FIRST EXTENDED MATURITY REACHED AT 19 YEARS AND 8 MONTHS AFTER ISSUE DATE.
3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO FIRST EXTENDED MATURITY DATE ON BONDS DATED: APR. 1 AND MAY 1, 1955 IS 3.83%; JUNE 1, THROUGH SEP. 1, 1955 IS 3.85%.
4/ SECOND EXTENDED MATURITY REACHED AT 29 YEARS AND 8 MONTHS AFTER ISSUE DATE.
5/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO SECOND EXTENDED MATURITY DATE ON BONDS DATED: APR. 1 AND MAY 1, 1955 IS 4.27%; JUNE 1 THROUGH SEP. 1, 1955 IS 4.28%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.
** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 9

BONDS BEARING ISSUE DATES FROM OCT. 1, 1955 THROUGH MAR. 1, 1956

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 9 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
8.5 YEARS . . .1/ (12/1/73)	$14.76	$29.52	$147.60	$295.20	4.45	5.90	7.14
9.0 YEARS . . . . (6/1/74)	16.26	32.52	162.60	325.20	4.54	6.50	7.48
9.5 YEARS . . . . (12/1/74)	16.51	33.02	165.10	330.20	4.62	6.60	8.38
10.0 YEARS 2/. . . (6/1/75)	20.96	41.92	209.60	419.20	3/ 4.77	8.38	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF OCT. 1, 1955. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 19 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY DATE ON BONDS DATED: OCT. 1 AND NOV. 1, 1955 IS 3.89%; DEC. 1, 1955 THROUGH MAR. 1, 1956 IS 3.91%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

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TABLE 10

BONDS BEARING ISSUE DATES FROM APR. 1 THROUGH SEP. 1, 1956

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 9 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION • EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
8.0 YEARS . . . 1/ (12/1/73)	$14.17	$28.34	$141.70	$283.40	4.61	5.67	6.91
8.5 YEARS . . . . (6/1/74)	15.72	31.44	157.20	314.40	4.69	6.29	7.13
9.0 YEARS . . . . (12/1/74)	16.07	32.14	160.70	321.40	4.77	6.43	7.50
9.5 YEARS . . . . (6/1/75)	16.37	32.74	163.70	327.40	4.84	6.55	8.49
10.0 YEARS 2/. . . (12/1/75)	21.22	42.44	212.20	424.40	3/ 4.98	8.49	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF APR. 1, 1956. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 19 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY DATE ON BONDS DATED: APR. 1 AND MAY 1, 1956 IS 3.99%: JUNE 1, THROUGH SEP. 1, 1956 IS 4.01%.

• FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 11

BONDS BEARING ISSUE DATES FROM OCT. 1, 1956 THROUGH JAN. 1, 1957

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 9 YEARS, 8 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
7.5 YEARS . . .1/ (12/1/73)	$13.96	$27.92	$139.60	$279.20	4.63	5.58	6.81
8.0 YEARS . . . . (6/1/74)	15.52	31.04	155.20	310.40	4.71	6.21	6.97
8.5 YEARS . . . . (12/1/74)	15.82	31.64	158.20	316.40	4.79	6.33	7.20
9.0 YEARS . . . . (6/1/75)	16.12	32.24	161.20	322.40	4.86	6.45	7.60
9.5 YEARS . . . . (12/1/75)	16.47	32.94	164.70	329.40	4.93	6.59	8.65
10.0 YEARS 2/. . . (6/1/76)	21.62	43.24	216.20	432.40	3/ 5.07	8.65	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF OCT. 1, 1956. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 19 YEARS AND 8 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY DATE ON BONDS DATED: OCT. 1 AND NOV. 1, 1956 IS 4.04%; DEC. 1, 1956 AND JAN. 1, 1957 IS 4.07%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 12

BONDS BEARING ISSUE DATES FROM FEB. 1 THROUGH MAY 1, 1957

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
7.0 YEARS . . .1/ (2/1/74)	$13.81	$27.62	$138.10	$276.20	4.65	5.52	6.74
7.5 YEARS . . . . (8/1/74)	15.37	30.74	153.70	307.40	4.73	6.15	6.87
8.0 YEARS . . . . (2/1/75)	15.62	31.24	156.20	312.40	4.81	6.25	7.04
8.5 YEARS . . . . (8/1/75)	15.92	31.84	159.20	318.40	4.88	6.37	7.28
9.0 YEARS . . . . (2/1/76)	16.22	32.44	162.20	324.40	4.95	6.49	7.70
9.5 YEARS . . . . (8/1/76)	16.52	33.04	165.20	330.40	5.02	6.61	8.83
10.0 YEARS 2/. . . (2/1/77)	22.07	44.14	220.70	441.40	3/ 5.17	8.83	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF FEB. 1, 1957. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.25%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 13

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1957

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
	EXTENDED MATURITY PERIOD						
					PERCENT	PERCENT	PERCENT
6.5 YEARS . . .1/ (12/1/73)	$13.72	$27.44	$137.20	$274.40	4.68	5.49	6.69
7.0 YEARS . . . . (6/1/74)	15.23	30.46	152.30	304.60	4.77	6.09	6.80
7.5 YEARS . . . . (12/1/74)	15.48	30.96	154.80	309.60	4.84	6.19	6.93
8.0 YEARS . . . . (6/1/75)	15.73	31.46	157.30	314.60	4.92	6.29	7.10
8.5 YEARS . . . . (12/1/75)	16.03	32.06	160.30	320.60	4.99	6.41	7.35
9.0 YEARS . . . . (6/1/76)	16.28	32.56	162.80	325.60	5.06	6.51	7.79
9.5 YEARS . . . . (12/1/76)	16.58	33.16	165.80	331.60	5.12	6.63	8.99
10.0 YEARS 2/. . . (6/1/77)	22.48	44.96	224.80	449.60	3/ 5.27	8.99	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1957. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.31%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 14

BONDS BEARING ISSUE DATES FROM DEC. 1, 1957 THROUGH MAY 1, 1958

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
6.0 YEARS . . .1/ (12/1/73)	$13.57	$27.14	$135.70	$271.40	4.71	5.43	6.64
6.5 YEARS . . . . (6/1/74)	15.08	30.16	150.80	301.60	4.80	6.03	6.74
7.0 YEARS . . . . (12/1/74)	15.33	30.66	153.30	306.60	4.88	6.13	6.85
7.5 YEARS . . . . (6/1/75)	15.58	31.16	155.80	311.60	4.95	6.23	6.99
8.0 YEARS . . . . (12/1/75)	15.83	31.66	158.30	316.60	5.02	6.33	7.17
8.5 YEARS . . . . (6/1/76)	16.08	32.16	160.80	321.60	5.09	6.43	7.43
9.0 YEARS . . . . (12/1/76)	16.38	32.76	163.80	327.60	5.15	6.55	7.89
9.5 YEARS . . . . (6/1/77)	16.63	33.26	166.30	332.60	5.21	6.65	9.17
10.0 YEARS 2/. . . (12/1/77)	22.93	45.86	229.30	458.60	3/ 5.36	9.17	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1957. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.38%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 15

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1958

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10.000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION • EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
5.5 YEARS . . .1/ (12/1/73)	$13.47	$26.94	$134.70	$269.40	4.75	5.39	6.60
6.0 YEARS . . . . (6/1/74)	14.98	29.96	149.80	299.60	4.84	5.99	6.69
6.5 YEARS . . . . (12/1/74)	15.18	30.36	151.80	303.60	4.92	6.07	6.79
7.0 YEARS . . . . (6/1/75)	15.43	30.86	154.30	308.60	5.00	6.17	6.91
7.5 YEARS . . . . (12/1/75)	15.68	31.36	156.80	313.60	5.07	6.27	7.05
8.0 YEARS . . . . (6/1/76)	15.93	31.86	159.30	318.60	5.13	6.37	7.23
8.5 YEARS . . . . (12/1/76)	16.18	32.36	161.80	323.60	5.20	6.47	7.50
9.0 YEARS . . . . (6/1/77)	16.43	32.86	164.30	328.60	5.26	6.57	7.99
9.5 YEARS . . . . (12/1/77)	16.68	33.36	166.80	333.60	5.31	6.67	9.35
10.0 YEARS 2/. . . (6/1/78)	23.38	46.76	233.80	467.60	3/ 5.46	9.35	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1958. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.44%.

• FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 16

BONDS BEARING ISSUE DATES FROM DEC. 1, 1958 THROUGH MAY 1, 1959

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
5.0 YEARS . . .1/ (12/1/73)	$13.37	$26.74	$133.70	$267.40	4.80	5.35	6.57
5.5 YEARS . . . . (6/1/74)	14.88	29.76	148.80	297.60	4.89	5.95	6.65
6.0 YEARS . . . . (12/1/74)	15.08	30.16	150.80	301.60	4.98	6.03	6.73
6.5 YEARS . . . . (6/1/75)	15.33	30.66	153.30	306.60	5.05	6.13	6.83
7.0 YEARS . . . . (12/1/75)	15.53	31.06	155.30	310.60	5.12	6.21	6.95
7.5 YEARS . . . . (6/1/76)	15.78	31.56	157.80	315.60	5.19	6.31	7.09
8.0 YEARS . . . . (12/1/76)	16.03	32.06	160.30	320.60	5.25	6.41	7.27
8.5 YEARS . . . . (6/1/77)	16.28	32.56	162.80	325.60	5.31	6.51	7.54
9.0 YEARS . . . . (12/1/77)	16.53	33.06	165.30	330.60	5.36	6.61	8.03
9.5 YEARS . . . . (6/1/78)	16.78	33.56	167.80	335.60	5.42	6.71	9.39
10.0 YEARS 2/. . . (12/1/78)	23.48	46.96	234.80	469.60	3/ 5.57	9.39	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1958. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.51%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 17

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1959

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
4.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.38	5.50	6.00
5.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.43	6.00	6.00
5.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.48	6.00	6.00
6.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.52	6.00	6.00
6.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.55	6.00	6.00
7.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.57	6.00	6.00
7.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.60	6.00	6.00
8.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.62	6.00	6.00
8.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.63	6.00	6.00
9.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.65	6.00	6.00
9.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.66	6.00	6.00
10.0 YEARS 2/. . . (6/1/79)	15.00	30.00	150.00	300.00	3/ 5.68	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1959. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.58%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 18

BONDS BEARING ISSUE DATES FROM DEC. 1, 1959 THROUGH MAY 1, 1960

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
4.0 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.43	5.50	6.00
4.5 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.49	6.00	6.00
5.0 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.53	6.00	6.00
5.5 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.57	6.00	6.00
6.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.60	6.00	6.00
6.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.63	6.00	6.00
7.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.65	6.00	6.00
7.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.67	6.00	6.00
8.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.68	6.00	6.00
8.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.70	6.00	6.00
9.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.71	6.00	6.00
9.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.72	6.00	6.00
10.0 YEARS 2/. . . (12/1/79)	15.00	30.00	150.00	300.00	3/ 5.73	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1959. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.61%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 19

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1960

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
3.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
4.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.56	6.00	6.00
4.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.60	6.00	6.00
5.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.64	6.00	6.00
5.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.66	6.00	6.00
6.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.69	6.00	6.00
6.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.71	6.00	6.00
7.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.73	6.00	6.00
7.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.74	6.00	6.00
8.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.75	6.00	6.00
8.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.76	6.00	6.00
9.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.77	6.00	6.00
9.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.78	6.00	6.00
10.0 YEARS 2/. . . (6/1/80)	15.00	30.00	150.00	300.00	3/ 5.79	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1960. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.64%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 20

BONDS BEARING ISSUE DATES FROM DEC. 1, 1960 THROUGH MAY 1, 1961

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * — EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
3.0 YEARS . . . 1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
3.5 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.57	6.00	6.00
4.0 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.61	6.00	6.00
4.5 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.65	6.00	6.00
5.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.68	6.00	6.00
5.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.71	6.00	6.00
6.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.73	6.00	6.00
6.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.75	6.00	6.00
7.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.76	6.00	6.00
7.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.77	6.00	6.00
8.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.79	6.00	6.00
8.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
9.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
9.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.81	6.00	6.00
10.0 YEARS 2/. . . (12/1/80)	15.00	30.00	150.00	300.00	3/ 5.82	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1960. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.68%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 21

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1961

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
2.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
3.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.58	6.00	6.00
3.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.63	6.00	6.00
4.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.67	6.00	6.00
4.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.0C	5.71	6.00	6.00
5.0 YEARS . . . . (6/1/76)	15.n0	30.00	150.00	300.0C	5.73	6.00	6.00
5.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.75	6.00	6.00
6.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.77	6.00	6.00
6.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.79	6.00	6.00
7.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
7.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.81	6.00	6.00
8.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.82	6.00	6.00
8.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
9.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
9.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.84	6.00	6.00
10.0 YEARS 2/. . . (6/1/81)	15.00	30.00	150.00	300.00	3/ 5.85	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1961. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.73%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 22

BONDS BEARING ISSUE DATES FROM DEC. 1, 1961 THROUGH MAY 1, 1962

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
2.0 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
2.5 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.59	6.00	6.00
3.0 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.66	6.00	6.00
3.5 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.70	6.00	6.00
4.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.74	6.00	6.00
4.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.76	6.00	6.00
5.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.78	6.00	6.00
5.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
6.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.81	6.00	6.00
6.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
7.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.84	6.00	6.00
7.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.84	6.00	6.00
8.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.85	6.00	6.00
8.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.86	6.00	6.00
9.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
9.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
10.0 YEARS 2/. . . (12/1/81)	15.00	30.00	150.00	300.00	3/ 5.88	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1961. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.77%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 23

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1962

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
1.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
2.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.62	6.00	6.00
2.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.69	6.00	6.00
3.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.74	6.00	6.00
3.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.77	6.00	6.00
4.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.80	6.00	6.00
4.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.82	6.00	6.00
5.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
5.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.85	6.00	6.00
6.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.86	6.00	6.00
6.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
7.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.88	6.00	6.00
7.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.88	6.00	6.00
8.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
8.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
9.0 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
9.5 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
10.0 YEARS 2/. . . (6/1/82)	15.00	30.00	150.00	300.00	3/ 5.91	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1. 1962. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.82%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 24

BONDS BEARING ISSUE DATES FROM DEC. 1, 1962 THROUGH MAY 1, 1963

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION * EXTENDED MATURITY PERIOD				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE-CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
1.0 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
1.5 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.66	6.00	6.00
2.0 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.74	6.00	6.00
2.5 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.79	6.00	6.00
3.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.82	6.00	6.00
3.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.85	6.00	6.00
4.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.86	6.00	6.00
4.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.88	6.00	6.00
5.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
5.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
6.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.90	6.00	6.00
6.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.91	6.00	6.00
7.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
7.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
8.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
8.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
9.0 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
9.5 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
10.0 YEARS 2/. . . (12/1/82)	15.00	30.00	150.00	300.00	3/ 5.94	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1962. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.87%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 25

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1963

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS, 0 MONTHS	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION — EXTENDED MATURITY PERIOD **				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PD. PRE- CEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE TO FIRST EXTENDED MATURITY
					PERCENT	PERCENT	PERCENT
.5 YEARS . . .1/ (12/1/73)	$13.75	$27.50	$137.50	$275.00	5.50	5.50	6.00
1.0 YEARS . . . . (6/1/74)	15.00	30.00	150.00	300.00	5.75	6.00	6.00
1.5 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	5.83	6.00	6.00
2.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	5.87	6.00	6.00
2.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	5.89	6.00	6.00
3.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	5.91	6.00	6.00
3.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	5.92	6.00	6.00
4.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	5.93	6.00	6.00
4.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	5.94	6.00	6.00
5.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	5.94	6.00	6.00
5.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	5.95	6.00	6.00
6.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	5.95	6.00	6.00
6.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	5.95	6.00	6.00
7.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
7.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
8.0 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
8.5 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
9.0 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	5.96	6.00	6.00
9.5 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	5.97	6.00	6.00
10.0 YEARS 2/. . . (6/1/83)	15.00	30.00	150.00	300.00	3/ 5.97	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1963. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.92%.

** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

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TABLE 26

BONDS BEARING ISSUE DATES FROM DEC. 1, 1963 THROUGH MAY 1, 1964

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE (A) TO MATURITY
					PERCENT	PERCENT	PERCENT
10.0 YEARS 1/. .2/ (12/1/73)	$17.81	$35.62	$178.10	$356.20	4.35	7.12	----
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS	EXTENDED MATURITY PERIOD **						(5) TO EXTENDED MATURITY
.5 YEARS . . . . (6/1/74)	$15.00	$30.00	$150.00	$300.00	6.00	6.00	6.00
1.0 YEARS . . . . (12/1/74)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
1.5 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.0 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.5 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.0 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.5 YEARS . . . . (6/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
10.0 YEARS 3/. . . (12/1/83)	15.00	30.00	150.00	300.00	4/ 6.00	6.00	----

1/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.
2/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1963. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.
3/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.
4/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 4.97%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.
** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 27

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1964

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE (A) TO MATURITY
					PERCENT	PERCENT	PERCENT
9.5 YEARS . . .1/ (12/1/73)	$14.66	$29.32	$146.60	$293.20	4.31	5.86	7.80
10.0 YEARS 2/. . . (6/1/74)	19.51	39.02	195.10	390.20	4.94	7.80	----
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS	EXTENDED MATURITY PERIOD **						(B) TO EXTENDED MATURITY
.5 YEARS . . . . (12/1/74)	$15.00	$30.00	$150.00	$300.00	6.00	6.00	6.00
1.0 YEARS . . . . (6/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
1.5 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.0 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.5 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.0 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.5 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.0 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.5 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.0 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.5 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.0 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.5 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.0 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.5 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.0 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.5 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.0 YEARS . . . . (6/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.5 YEARS . . . . (12/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
10.0 YEARS 3/. . . (6/1/84)	15.00	30.00	150.00	300.00	4/ 6.00	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1964. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

3/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.

4/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 5.02%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 28

BONDS BEARING ISSUE DATES FROM DEC. 1, 1964 THROUGH MAY 1, 1965

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM BEGINNING OF CURRENT MATURITY PD. TO EA. INTEREST PMT. DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PMT. DATE (A) TO MATURITY
					PERCENT	PERCENT	PERCENT
9.0 YEARS . . .1/ (12/1/73)	$14.61	$29.22	$146.10	$292.20	4.31	5.84	7.18
9.5 YEARS . . . . (6/1/74)	16.01	32.02	160.10	320.20	4.40	6.40	7.98
10.0 YEARS 2/. . . (12/1/74)	19.96	39.92	199.60	399.20	4.54	7.98	----
PERIOD OF TIME BOND IS HELD AFTER FIRST MATURITY AT 10 YEARS	EXTENDED MATURITY PERIOD **						(8) TO EXTENDED MATURITY
.5 YEARS . . . . (6/1/75)	$15.00	$30.00	$150.00	$300.00	6.00	6.00	6.00
1.0 YEARS . . . . (12/1/75)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
1.5 YEARS . . . . (6/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.0 YEARS . . . . (12/1/76)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
2.5 YEARS . . . . (6/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.0 YEARS . . . . (12/1/77)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
3.5 YEARS . . . . (6/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.0 YEARS . . . . (12/1/78)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
4.5 YEARS . . . . (6/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.0 YEARS . . . . (12/1/79)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
5.5 YEARS . . . . (6/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.0 YEARS . . . . (12/1/80)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
6.5 YEARS . . . . (6/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.0 YEARS . . . . (12/1/81)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
7.5 YEARS . . . . (6/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.0 YEARS . . . . (12/1/82)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
8.5 YEARS . . . . (6/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.0 YEARS . . . . (12/1/83)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
9.5 YEARS . . . . (6/1/84)	15.00	30.00	150.00	300.00	6.00	6.00	6.00
10.0 YEARS 3/. . . (12/1/84)	15.00	30.00	150.00	300.00	4/ 6.00	6.00	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1964. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.
2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.
3/ EXTENDED MATURITY REACHED AT 20 YEARS AND 0 MONTHS AFTER ISSUE DATE.
4/ YIELD ON PURCHASE PRICE FROM ISSUE DATE TO EXTENDED MATURITY IS 5.08%.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.
** THIS TABLE DOES NOT APPLY IF THE PREVAILING RATE FOR SERIES H BONDS BEING ISSUED AT THE TIME THE EXTENSION BEGINS IS DIFFERENT FROM 6.00 PERCENT.

TABLE 29

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1965

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
8.5 YEARS . . .1/ (12/1/73)	$14.41	$28.82	$144.10	$288.20	4.31	5.76	6.92
9.0 YEARS . . . . (6/1/74)	15.81	31.62	158.10	316.20	4.40	6.32	7.23
9.5 YEARS . . . . (12/1/74)	15.96	31.92	159.60	319.20	4.49	6.38	8.10
10.0 YEARS 2/. . . (6/1/75)	20.26	40.52	202.60	405.20	4.63	8.10	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1965. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 30

BONDS BEARING ISSUE DATES FROM DEC. 1, 1965 THROUGH MAY 1, 1966

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
8.0 YEARS . . .1/ (12/1/73)	$14.16	$28.32	$141.60	$283.20	4.51	5.66	6.84
8.5 YEARS . . . . (6/1/74)	15.66	31.32	156.60	313.20	4.60	6.26	7.05
9.0 YEARS . . . . (12/1/74)	15.91	31.82	159.10	318.20	4.67	6.36	7.41
9.5 YEARS . . . . (6/1/75)	16.16	32.32	161.60	323.20	4.75	6.46	8.38
10.0 YEARS 2/. . . (12/1/75)	20.96	41.92	209.60	419.20	4.89	8.38	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1965. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 31

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1966

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
7.5 YEARS . . .1/ (12/1/73)	$14.16	$28.32	$141.60	$283.20	4.50	5.66	6.82
8.0 YEARS . . . . (6/1/74)	15.67	31.34	156.70	313.40	4.59	6.27	6.97
8.5 YEARS . . . . (12/1/74)	15.92	31.84	159.20	318.40	4.68	6.37	7.19
9.0 YEARS . . . . (6/1/75)	16.17	32.34	161.70	323.40	4.76	6.47	7.57
9.5 YEARS . . . . (12/1/75)	16.42	32.84	164.20	328.40	4.83	6.57	8.61
10.0 YEARS 2/. . . (6/1/76)	21.52	43.04	215.20	430.40	4.98	8.61	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1966. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 32

BONDS BEARING ISSUE DATES FROM DEC. 1, 1966 THROUGH MAY 1, 1967

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
7.0 YEARS . . .1/ (12/1/73)	$14.21	$28.42	$142.10	$284.20	4.48	5.68	6.81
7.5 YEARS . . . . (6/1/74)	15.67	31.34	156.70	313.40	4.58	6.27	6.93
8.0 YEARS . . . . (12/1/74)	15.92	31.84	159.20	318.40	4.67	6.37	7.08
8.5 YEARS . . . . (6/1/75)	16.12	32.24	161.20	322.40	4.76	6.45	7.31
9.0 YEARS . . . . (12/1/75)	16.37	32.74	163.70	327.40	4.84	6.55	7.71
9.5 YEARS . . . . (6/1/76)	16.57	33.14	165.70	331.40	4.91	6.63	8.83
10.0 YEARS 2/. . . (12/1/76)	22.07	44.14	220.70	441.40	5.06	8.83	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1966. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.
2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 33

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1967

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
6.5 YEARS . . .1/ (12/1/73)	$14.28	$28.56	$142.80	$285.60	4.46	5.71	6.83
7.0 YEARS . . . . (6/1/74)	15.74	31.48	157.40	314.80	4.57	6.30	6.93
7.5 YEARS . . . . (12/1/74)	15.94	31.88	159.40	318.80	4.67	6.38	7.05
8.0 YEARS . . . . (6/1/75)	16.14	32.28	161.40	322.80	4.76	6.46	7.21
8.5 YEARS . . . . (12/1/75)	16.39	32.78	163.90	327.80	4.84	6.56	7.44
9.0 YEARS . . . . (6/1/76)	16.59	33.18	165.90	331.80	4.92	6.64	7.86
9.5 YEARS . . . . (12/1/76)	16.79	33.58	167.90	335.80	5.00	6.72	9.06
10.0 YEARS 2/. . . (6/1/77)	22.64	45.28	226.40	452.80	5.15	9.06	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1967. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 34

BONDS BEARING ISSUE DATES FROM DEC. 1, 1967 THROUGH MAY 1, 1968

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
6.0 YEARS . . .1/ (12/1/73)	$14.34	$28.68	$143.40	$286.80	4.41	5.74	6.85
6.5 YEARS . . . . (6/1/74)	15.80	31.60	158.00	316.00	4.54	6.32	6.94
7.0 YEARS . . . . (12/1/74)	16.00	32.00	160.00	320.00	4.65	6.40	7.04
7.5 YEARS . . . . (6/1/75)	16.20	32.40	162.00	324.00	4.75	6.48	7.16
8.0 YEARS . . . . (12/1/75)	16.40	32.80	164.00	328.00	4.84	6.56	7.33
8.5 YEARS . . . . (6/1/76)	16.60	33.20	166.00	332.00	4.93	6.64	7.57
9.0 YEARS . . . . (12/1/76)	16.80	33.60	168.00	336.00	5.01	6.72	8.03
9.5 YEARS . . . . (6/1/77)	17.00	34.00	170.00	340.00	5.08	6.80	9.30
10.0 YEARS 2/. . . (12/1/77)	23.25	46.50	232.50	465.00	5.24	9.30	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1967. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 35

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1968

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
5.5 YEARS . . .1/ (12/1/73)	$14.41	$28.82	$144.10	$288.20	4.35	5.76	6.88
6.0 YEARS . . . . (6/1/74)	15.87	31.74	158.70	317.40	4.50	6.35	6.96
6.5 YEARS . . . . (12/1/74)	16.02	32.04	160.20	320.40	4.62	6.41	7.05
7.0 YEARS . . . . (6/1/75)	16.22	32.44	162.20	324.40	4.74	6.49	7.16
7.5 YEARS . . . . (12/1/75)	16.42	32.84	164.20	328.40	4.84	6.57	7.29
8.0 YEARS . . . . (6/1/76)	16.62	33.24	166.20	332.40	4.93	6.65	7.46
8.5 YEARS . . . . (12/1/76)	16.82	33.64	168.20	336.40	5.01	6.73	7.72
9.0 YEARS . . . . (6/1/77)	17.02	34.04	170.20	340.40	5.09	6.81	8.20
9.5 YEARS . . . . (12/1/77)	17.22	34.44	172.20	344.40	5.16	6.89	9.57
10.0 YEARS 2/. . . (6/1/78)	23.92	47.84	239.20	478.40	5.33	9.57	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1968. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 36

BONDS BEARING ISSUE DATES FROM DEC. 1, 1968 THROUGH MAY 1, 1969

ISSUE PRICE	$500	$1,000	$5,000	$10,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	10,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *				(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
					PERCENT	PERCENT	PERCENT
5.0 YEARS . . .1/ (12/1/73)	$12.20	$24.40	$122.00	$244.00	4.29	4.88	6.97
5.5 YEARS . . . . (6/1/74)	16.05	32.10	160.50	321.00	4.46	6.42	7.04
6.0 YEARS . . . . (12/1/74)	16.25	32.50	162.50	325.00	4.61	6.50	7.11
6.5 YEARS . . . . (6/1/75)	16.40	32.80	164.00	328.00	4.73	6.56	7.20
7.0 YEARS . . . . (12/1/75)	16.60	33.20	166.00	332.00	4.85	6.64	7.31
7.5 YEARS . . . . (6/1/76)	16.80	33.60	168.00	336.00	4.95	6.72	7.44
8.0 YEARS . . . . (12/1/76)	17.00	34.00	170.00	340.00	5.04	6.80	7.62
8.5 YEARS . . . . (6/1/77)	17.20	34.40	172.00	344.00	5.13	6.88	7.88
9.0 YEARS . . . . (12/1/77)	17.40	34.80	174.00	348.00	5.21	6.96	8.36
9.5 YEARS . . . . (6/1/78)	17.60	35.20	176.00	352.00	5.28	7.04	9.74
10.0 YEARS 2/. . . (12/1/78)	24.35	48.70	243.50	487.00	5.45	9.74	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1968. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 37

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1969

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
4.5 YEARS . . .1/ (12/1/73)	$12.75	$25.50	$127.50	4.90	5.10	6.50
5.0 YEARS . . . . (6/1/74)	14.00	28.00	140.00	4.97	5.60	6.61
5.5 YEARS . . . . (12/1/74)	16.53	33.06	165.30	5.10	6.61	6.61
6.0 YEARS . . . . (6/1/75)	16.53	33.06	165.30	5.21	6.61	6.61
6.5 YEARS . . . . (12/1/75)	16.53	33.06	165.30	5.30	6.61	6.61
7.0 YEARS . . . . (6/1/76)	16.53	33.06	165.30	5.37	6.61	6.61
7.5 YEARS . . . . (12/1/76)	16.53	33.06	165.30	5.44	6.61	6.61
8.0 YEARS . . . . (6/1/77)	16.53	33.06	165.30	5.50	6.61	6.61
8.5 YEARS . . . . (12/1/77)	16.53	33.06	165.30	5.55	6.61	6.61
9.0 YEARS . . . . (6/1/78)	16.53	33.06	165.30	5.60	6.61	6.61
9.5 YEARS . . . . (12/1/78)	16.53	33.06	165.30	5.64	6.61	6.61
10.0 YEARS 2/. . . (6/1/79)	16.53	33.06	165.30	5.67	6.61	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1969. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 38

BONDS BEARING ISSUE DATES FROM DEC. 1, 1969 THROUGH MAY 1, 1970

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
4.0 YEARS . . .1/ (12/1/73)	$12.75	$25.50	$127.50	4.88	5.10	6.48
4.5 YEARS . . . . (6/1/74)	14.00	28.00	140.00	4.95	5.60	6.57
5.0 YEARS . . . . (12/1/74)	14.00	28.00	140.00	5.01	5.60	6.69
5.5 YEARS . . . . (6/1/75)	16.72	33.44	167.20	5.15	6.69	6.69
6.0 YEARS . . . . (12/1/75)	16.72	33.44	167.20	5.26	6.69	6.69
6.5 YEARS . . . . (6/1/76)	16.72	33.44	167.20	5.35	6.69	6.69
7.0 YEARS . . . . (12/1/76)	16.72	33.44	167.20	5.43	6.69	6.69
7.5 YEARS . . . . (6/1/77)	16.72	33.44	167.20	5.49	6.69	6.69
8.0 YEARS . . . . (12/1/77)	16.72	33.44	167.20	5.55	6.69	6.69
8.5 YEARS . . . . (6/1/78)	16.72	33.44	167.20	5.61	6.69	6.69
9.0 YEARS . . . . (12/1/78)	16.72	33.44	167.20	5.65	6.69	6.69
9.5 YEARS . . . . (6/1/79)	16.72	33.44	167.20	5.69	6.69	6.69
10.0 YEARS 2/. . . (12/1/79)	16.72	33.44	167.20	5.73	6.69	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1969. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 39

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1970

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
3.5 YEARS . . .1/ (12/1/73)	$13.25	$26.50	$132.50	5.05	5.30	6.32
4.0 YEARS . . . . (6/1/74)	14.50	29.00	145.00	5.14	5.80	6.37
4.5 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.20	5.80	6.43
5.0 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.26	5.80	6.50
5.5 YEARS . . . . (12/1/75)	16.26	32.52	162.60	5.36	6.50	6.50
6.0 YEARS . . . . (6/1/76)	16.26	32.52	162.60	5.44	6.50	6.50
6.5 YEARS . . . . (12/1/76)	16.26	32.52	162.60	5.51	6.50	6.50
7.0 YEARS . . . . (6/1/77)	16.26	32.52	162.60	5.56	6.50	6.50
7.5 YEARS . . . . (12/1/77)	16.26	32.52	162.60	5.62	6.50	6.50
8.0 YEARS . . . . (6/1/78)	16.26	32.52	162.60	5.66	6.50	6.50
8.5 YEARS . . . . (12/1/78)	16.26	32.52	162.60	5.70	6.50	6.50
9.0 YEARS . . . . (6/1/79)	16.26	32.52	162.60	5.73	6.50	6.50
9.5 YEARS . . . . (12/1/79)	16.26	32.52	162.60	5.76	6.50	6.50
10.0 YEARS 2/. . . (6/1/80)	16.26	32.52	162.60	5.79	6.50	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1970. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 40

BONDS BEARING ISSUE DATES FROM DEC. 1, 1970 THROUGH MAY 1, 1971

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
3.0 YEARS . . .1/ (12/1/73)	$13.25	$26.50	$132.50	5.02	5.30	6.27
3.5 YEARS . . . . (6/1/74)	14.50	29.00	145.00	5.12	5.80	6.32
4.0 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.20	5.80	6.37
4.5 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.26	5.80	6.43
5.0 YEARS . . . . (12/1/75)	14.50	29.00	145.00	5.30	5.80	6.50
5.5 YEARS . . . . (6/1/76)	16.26	32.52	162.60	5.40	6.50	6.50
6.0 YEARS . . . . (12/1/76)	16.26	32.52	162.60	5.48	6.50	6.50
6.5 YEARS . . . . (6/1/77)	16.26	32.52	162.60	5.54	6.50	6.50
7.0 YEARS . . . . (12/1/77)	16.26	32.52	162.60	5.60	6.50	6.50
7.5 YEARS . . . . (6/1/78)	16.26	32.52	162.60	5.65	6.50	6.50
8.0 YEARS . . . . (12/1/78)	16.26	32.52	162.60	5.69	6.50	6.50
8.5 YEARS . . . . (6/1/79)	16.26	32.52	162.60	5.73	6.50	6.50
9.0 YEARS . . . . (12/1/79)	16.26	32.52	162.60	5.76	6.50	6.50
9.5 YEARS . . . . (6/1/80)	16.26	32.52	162.60	5.79	6.50	6.50
10.0 YEARS 2/. . . (12/1/80)	16.26	32.52	162.60	5.82	6.50	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1970. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 41

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1971

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
2.5 YEARS . . .1/ (12/1/73)	$13.25	$26.50	$132.50	4.96	5.30	6.23
3.0 YEARS . . . . (6/1/74)	14.50	29.00	145.00	5.09	5.80	6.27
3.5 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.19	5.80	6.32
4.0 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.26	5.80	6.37
4.5 YEARS . . . . (12/1/75)	14.50	29.00	145.00	5.31	5.80	6.43
5.0 YEARS . . . . (6/1/76)	14.50	29.00	145.00	5.35	5.80	6.50
5.5 YEARS . . . . (12/1/76)	16.26	32.52	162.60	5.44	6.50	6.50
6.0 YEARS . . . . (6/1/77)	16.26	32.52	162.60	5.52	6.50	6.50
6.5 YEARS . . . . (12/1/77)	16.26	32.52	162.60	5.58	6.50	6.50
7.0 YEARS . . . . (6/1/78)	16.26	32.52	162.60	5.64	6.50	6.50
7.5 YEARS . . . . (12/1/78)	16.26	32.52	162.60	5.68	6.50	6.50
8.0 YEARS . . . . (6/1/79)	16.26	32.52	162.60	5.72	6.50	6.50
8.5 YEARS . . . . (12/1/79)	16.26	32.52	162.60	5.76	6.50	6.50
9.0 YEARS . . . . (6/1/80)	16.26	32.52	162.60	5.79	6.50	6.50
9.5 YEARS . . . . (12/1/80)	16.26	32.52	162.60	5.82	6.50	6.50
10.0 YEARS 2/. . . (6/1/81)	16.26	32.52	162.60	5.84	6.50	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1971. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 42

BONDS BEARING ISSUE DATES FROM DEC. 1, 1971 THROUGH MAY 1, 1972

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
2.0 YEARS . . .1/ (12/1/73)	$13.25	$26.50	$132.50	4.89	5.30	6.20
2.5 YEARS . . . . (6/1/74)	14.50	29.00	145.00	5.06	5.80	6.23
3.0 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.17	5.80	6.27
3.5 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.26	5.80	6.32
4.0 YEARS . . . . (12/1/75)	14.50	29.00	145.00	5.32	5.80	6.37
4.5 YEARS . . . . (6/1/76)	14.50	29.00	145.00	5.37	5.80	6.43
5.0 YEARS . . . . (12/1/76)	14.50	29.00	145.00	5.40	5.80	6.50
5.5 YEARS . . . . (6/1/77)	16.26	32.52	162.60	5.49	6.50	6.50
6.0 YEARS . . . . (12/1/77)	16.26	32.52	162.60	5.56	6.50	6.50
6.5 YEARS . . . . (6/1/78)	16.26	32.52	162.60	5.62	6.50	6.50
7.0 YEARS . . . . (12/1/78)	16.26	32.52	162.60	5.67	6.50	6.50
7.5 YEARS . . . . (6/1/79)	16.26	32.52	162.60	5.72	6.50	6.50
8.0 YEARS . . . . (12/1/79)	16.26	32.52	162.60	5.76	6.50	6.50
8.5 YEARS . . . . (6/1/80)	16.26	32.52	162.60	5.79	6.50	6.50
9.0 YEARS . . . . (12/1/80)	16.76	32.52	162.60	5.82	6.50	6.50
9.5 YEARS . . . . (6/1/81)	16.26	32.52	162.60	5.85	6.50	6.50
10.0 YEARS 2/. . . (12/1/81)	16.26	32.52	162.60	5.87	6.50	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1971. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.
2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 43

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1972

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
1.5 YEARS . . .1/ (12/1/73)	$13.25	$26.50	$132.50	4.75	5.30	6.17
2.0 YEARS . . . . (6/1/74)	14.50	29.00	145.00	5.01	5.80	6.20
2.5 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.16	5.80	6.23
3.0 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.26	5.80	6.27
3.5 YEARS . . . . (12/1/75)	14.50	29.00	145.00	5.33	5.80	6.32
4.0 YEARS . . . . (6/1/76)	14.50	29.00	145.00	5.38	5.80	6.37
4.5 YEARS . . . . (12/1/76)	14.50	29.00	145.00	5.42	5.80	6.43
5.0 YEARS . . . . (6/1/77)	14.50	29.00	145.00	5.46	5.80	6.51
5.5 YEARS . . . . (12/1/77)	16.27	32.54	162.70	5.54	6.51	6.51
6.0 YEARS . . . . (6/1/78)	16.27	32.54	162.70	5.61	6.51	6.51
6.5 YEARS . . . . (12/1/78)	16.27	32.54	162.70	5.66	6.51	6.51
7.0 YEARS . . . . (6/1/79)	16.27	32.54	162.70	5.71	6.51	6.51
7.5 YEARS . . . . (12/1/79)	16.27	32.54	162.70	5.76	6.51	6.51
8.0 YEARS . . . . (6/1/80)	16.27	32.54	162.70	5.79	6.51	6.51
8.5 YEARS . . . . (12/1/80)	16.27	32.54	162.70	5.83	6.51	6.51
9.0 YEARS . . . . (6/1/81)	16.27	32.54	162.70	5.86	6.51	6.51
9.5 YEARS . . . . (12/1/81)	16.27	32.54	162.70	5.88	6.51	6.51
10.0 YEARS 2/. . . (6/1/82)	16.27	32.54	162.70	5.90	6.51	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1972. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 44

BONDS BEARING ISSUE DATES FROM DEC. 1, 1972 THROUGH MAY 1, 1973

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD		
REDEMPTION AND MATURITY VALUE	500	1,000	5,000	(ANNUAL PERCENTAGE RATE)		
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION *			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
1.0 YEARS . . .1/ (12/1/73)	$13.25	$26.50	$132.50	4.49	5.30	6.15
1.5 YEARS . . . . (6/1/74)	14.50	29.00	145.00	4.92	5.80	6.17
2.0 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.13	5.80	6.20
2.5 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.26	5.80	6.23
3.0 YEARS . . . . (12/1/75)	14.50	29.00	145.00	5.34	5.80	6.27
3.5 YEARS . . . . (6/1/76)	14.50	29.00	145.00	5.40	5.80	6.32
4.0 YEARS . . . . (12/1/76)	14.50	29.00	145.00	5.45	5.80	6.37
4.5 YEARS . . . . (6/1/77)	14.50	29.00	145.00	5.48	5.80	6.43
5.0 YEARS . . . . (12/1/77)	14.50	29.00	145.00	5.51	5.80	6.51
5.5 YEARS . . . . (6/1/78)	16.27	32.54	162.70	5.59	6.51	6.51
6.0 YEARS . . . . (12/1/78)	16.27	32.54	162.70	5.65	6.51	6.51
6.5 YEARS . . . . (6/1/79)	16.27	32.54	162.70	5.71	6.51	6.51
7.0 YEARS . . . . (12/1/79)	16.27	32.54	162.70	5.75	6.51	6.51
7.5 YEARS . . . . (6/1/80)	16.27	32.54	162.70	5.79	6.51	6.51
8.0 YEARS . . . . (12/1/80)	16.27	32.54	162.70	5.83	6.51	6.51
8.5 YEARS . . . . (6/1/81)	16.27	32.54	162.70	5.86	6.51	6.51
9.0 YEARS . . . . (12/1/81)	16.27	32.54	162.70	5.89	6.51	6.51
9.5 YEARS . . . . (6/1/82)	16.27	32.54	162.70	5.91	6.51	6.51
10.0 YEARS 2/. . . (12/1/82)	16.27	32.54	162.70	5.93	6.51	----

1/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF DEC. 1, 1972. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

2/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

* FOR EARLIER INTEREST CHECKS AND YIELDS SEE APPROPRIATE TABLE IN DEPARTMENT CIRCULAR 905, 5TH REVISION, AS AMENDED AND SUPPLEMENTED.

TABLE 45

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1973

ISSUE PRICE	$500	$1,000	$5,000	APPROXIMATE INVESTMENT YIELD (ANNUAL PERCENTAGE RATE)		
REDEMPTION AND MATURITY VALUE 1/	500	1,000	5,000			
PERIOD OF TIME BOND IS HELD AFTER ISSUE DATE	(1) AMOUNTS OF INTEREST CHECKS FOR EACH DENOMINATION			(2) FROM ISSUE TO EACH INTEREST PAYMENT DATE	(3) FOR HALF-YEAR PERIOD PRECEDING INTEREST PAYMENT DATE	(4) FROM EACH INTEREST PAYMENT DATE TO MATURITY
				PERCENT	PERCENT	PERCENT
.5 YEARS . . .2/ (12/1/73)	$ 9.25	$18.50	$ 92.50	3.70	3.70	6.12
1.0 YEARS . . . . (6/1/74)	14.50	29.00	145.00	4.74	5.80	6.15
1.5 YEARS . . . . (12/1/74)	14.50	29.00	145.00	5.08	5.80	6.17
2.0 YEARS . . . . (6/1/75)	14.50	29.00	145.00	5.25	5.80	6.20
2.5 YEARS . . . . (12/1/75)	14.50	29.00	145.00	5.36	5.80	6.23
3.0 YEARS . . . . (6/1/76)	14.50	29.00	145.00	5.43	5.80	6.27
3.5 YEARS . . . . (12/1/76)	14.50	29.00	145.00	5.48	5.80	6.32
4.0 YEARS . . . . (6/1/77)	14.50	29.00	145.00	5.51	5.80	6.37
4.5 YEARS . . . . (12/1/77)	14.50	29.00	145.00	5.54	5.80	6.43
5.0 YEARS . . . . (6/1/78)	14.50	29.00	145.00	5.56	5.80	6.51
5.5 YEARS . . . . (12/1/78)	16.27	32.54	162.70	5.64	6.51	6.51
6.0 YEARS . . . . (6/1/79)	16.27	32.54	162.70	5.70	6.51	6.51
6.5 YEARS . . . . (12/1/79)	16.27	32.54	162.70	5.75	6.51	6.51
7.0 YEARS . . . . (6/1/80)	16.27	32.54	162.70	5.79	6.51	6.51
7.5 YEARS . . . . (12/1/80)	16.27	32.54	162.70	5.83	6.51	6.51
8.0 YEARS . . . . (6/1/81)	16.27	32.54	162.70	5.87	6.51	6.51
8.5 YEARS . . . . (12/1/81)	16.27	32.54	162.70	5.90	6.51	6.51
9.0 YEARS . . . . (6/1/82)	16.27	32.54	162.70	5.92	6.51	6.51
9.5 YEARS . . . . (12/1/82)	16.27	32.54	162.70	5.94	6.51	6.51
10.0 YEARS 3/. . . (6/1/83)	16.27	32.54	162.70	5.97	6.51	----

1/ AT ALL TIMES, EXCEPT THAT BOND IS NOT REDEEMABLE DURING FIRST 6 MONTHS.

2/ MONTH, DAY AND YEAR ON WHICH INTEREST CHECK IS PAYABLE ON ISSUES OF JUNE 1, 1973. FOR SUBSEQUENT ISSUE MONTHS ADD APPROPRIATE NUMBER OF MONTHS.

3/ MATURITY REACHED AT 10 YEARS AND 0 MONTHS AFTER ISSUE DATE.

APPENDIX

Summary of investment yields to maturity and extended maturity dates under regulations prescribed for Series H savings bonds with issue dates from June 1, 1952.

Issues	Term to maturity (years and months)	Yield 1/ during maturity period							Yield 1/ during extended maturity period (10 years)						Yield 1/ during second extended maturity period (10 years)	
			1959	1965	1968	1969	1970	1973		1965	1968	1969	1970	1973		1973
6/52- 3/54	9-8	3.00	+.50						3.75e	+.40	+.10b	5.00	+.50e		5.50e	+.50e
4/54- 9/54	9-8	3.00	+.50						3.75e	+.40	+.10b	5.00	+.50e		6.00e 2/	
10/54- 9/55	9-8	3.00	+.50						3.75e	+.40	+.10b	5.00	+.50e	+.50e	6.00e 2/	
10/55- 3/56	9-8	3.00	+.50						3.75e	+.40	+.10b	5.00	+.50e	+.50e		
4/56-11/56	9-8	3.00	+.50						4.15e		+.10b	5.00	+.50e	+.50e		
12/56- 1/57	9-8	3.00	+.50	+.40					4.15e		+.10b	5.00	+.50e	+.50e		
2/57- 5/58	10-0	3.25	+.50	+.40					4.15e		+.10b	5.00	+.50e	+.50e		
6/58- 5/59	10-0	3.25	+.50	+.40					4.25b			5.00	+.50e	+.50e		
6/59- 5/60	10-0	3.75		+.40	+.10b				5.00e				+.50e	+.50e		
6/60-11/60	10-0	3.75		+.40	+.10b				5.50e					+.50e		
12/60-12/61	10-0	3.75		+.40	+.10b	5.00			5.50e					+.50e		
1/62-11/63	10-0	3.75		+.40	+.10b	5.00	+.50e		5.50e					+.50e		
12/63- 5/64	10-0	3.75		+.40	+.10b	5.00	+.50e		6.00e 2/							
6/64- 5/65	10-0	3.75		+.40	+.10b	5.00	+.50e	+.50e	6.00e 2/							
6/65-11/65	10-0	3.75		+.40	+.10b	5.00	+.50e	+.50e								
12/65- 5/68	10-0	4.15			+.10b	5.00	+.50b	+.50e								
6/68- 5/69	10-0	4.25b				5.00	+.50b	+.50e								
6/69- 5/70	10-0	5.00					+.50b	+.50e								
6/70-11/73	10-0	5.50						+.50e								
12/73-	10-0	6.00														

1/ All yields are in terms of percent per annum, compounded semiannually. The first figure in each maturity period is the overall yield for that period at time of entry into period. Interest payments are on a graduated basis unless otherwise indicated, the full rate being received only if held to the end of the period (lesser rate if redeemed earlier). An "e" indicates payments on an approximately level basis. A "b" indicates increased interest on a bonus basis, that is, the full rate is received only if the bond is held to the end of the period (no increase if redeemed earlier). Rate increases within periods took effect at the beginning of the first full half-year interest period starting on or after the effective date as follows:

1959 - graduated improvements in rate to next maturity beginning June 1, 1959.
1965 - graduated improvement in rate to next maturity beginning Dec. 1, 1965.
1968 - bonus improvement in rate to next maturity beginning June 1, 1968.
1969 - maximum rate to next maturity beginning June 1, 1969.
1970 - level and bonus improvements in rate to next maturity beginning June 1, 1970. In the case of .50b the increase is spread over the second 5 years of maturity period.
1973 - level improvement in rate to next maturity beginning Dec. 1, 1973.

2/ Yield does not apply if prevailing rate for Series H bonds being issued at time extension begins is different from 6.00 percent.

Exhibit 8.—Department Circular, Public Debt Series No. 1–63, January 10, 1963, Amendment, regulations governing United States retirement plan bonds

DEPARTMENT OF THE TREASURY,
Washington, January 30, 1974.

DESCRIPTION OF BONDS

Section 341.1(a) of Department of the Treasury Circular, Public Debt Series No. 1–63, dated January 10, 1963, as amended (31 CFR Part 341), is hereby further amended to read as follows:

Sec. 341.1. Description of bonds.

(a) *Investment yield (interest)*. United States Retirement Plan Bonds, hereinafter sometimes referred to as Retirement Plan Bonds, will be issued at par. The investment yields (interest) are as follows:

(1) Bonds with issue dates of January 1, 1963, through May 1, 1966—3¾ percent per annum, compounded semiannually. (See table of redemption values appended to the circular.)

(2) Bonds with issue dates of June 1, 1966, through December 1, 1969—4.15 percent per annum, compounded semiannually. (See Table A, appended to the First Amendment of the circular.)

(3) Bonds with the issue dates of January 1, 1970, through January 1, 1974—5 percent per annum, compounded semiannually. (See Table B, appended to the Second Amendment of the circular.)

(4) Bonds with the issue date of February 1, 1974, or thereafter—6 percent per annum, compounded semiannually. (See Table C, appended to this amendment.)

The interest will be paid only upon redemption of the bonds. The accrual of interest will continue until the bonds have been redeemed or have reached maturity, whichever is earlier, in accordance with these regulations.

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JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 9.—Department Circular, Public Debt Series No. 3–67, June 12, 1968, Revised, Amendment No. 2, offering of United States savings notes

DEPARTMENT OF THE TREASURY,
Washington, March 18, 1974.

INTEREST RATES

Sections 342.2(c)(1) and 342.2a, and the tables incorporated in Department of the Treasury Circular, Public Debt Series No. 3–67, Revised, dated June 12, 1968, as amended (31 CFR Part 342), have been further amended and revised to read as follows:

§ 342.2 Description of notes.

* * * * * * *

(c) *Denominations—prices—investment yield (interest)*. * * *

(1) *Notes with issue dates June 1, 1968, or thereafter.* The investment yield for savings notes with issue dates of June 1, 1968, through November 1, 1969, is approximately 5 percent per annum, compounded semiannually, if the notes are held to maturity, but the yield is less if the notes are redeemed earlier. Outstanding notes with issue dates of December 1, 1969, through June 1, 1970,[1] will earn interest at the same rate, except that for the remaining period to the maturity date the rate is hereby increased by approximately ½ of 1 percent, beginning with the first interest accrual period starting on or after December 1, 1973.

§ 342.2a Extension—interest rates.

Savings notes were extended for a 10-year period after their maturity dates. For that part of the period which occurred between November 1, 1971, and

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[1] These provisions also apply to notes which may bear issue dates subsequent to June 1970.

November 30, 1973, the yield on the maturity values of outstanding notes accrued at approximately 5½ percent per annum, compounded semiannually. The yield on notes in the extension period on December 1, 1973, is hereby increased by approximately ½ of 1 percent per annum for the remainder of such period beginning with the first interest accrual period starting on or after December 1, 1973. The yield for notes thereafter entering the extension period will be the rate in effect for Series E savings bonds being issued at the time the extension period begins. The tables of redemption values and investment yields, published herein, will not apply if at the time the extension period begins the rate for Series E savings bonds is different from 6 percent.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 1.—NOTES BEARING ISSUE DATE MAY 1, 1967

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after original maturity at 4 yrs. 6 mos.)	(1) Redemption values during each half-year period (values increase on 1st day of period) EXTENDED MATURITY PERIOD				(2) From beginning of current 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
2-6 to 3-0 [1](5/1/74)	$28.63	$57.26	$85.89	$114.52	5.50	6.01	6.00
3-0 to 3-6 (11/1/74)	29.49	58.98	88.47	117.96	5.58	6.04	6.00
3-6 to 4-0 (5/1/75)	30.38	60.76	91.14	121.52	5.65	5.99	6.00
4-0 to 4-6 (11/1/75)	31.29	62.58	93.87	125.16	5.69	5.94	6.00
4-6 to 5-0 (5/1/76)	32.22	64.44	96.66	128.88	5.72	6.02	6.00
5-0 to 5-6 (11/1/76)	33.19	66.38	99.57	132.76	5.75	5.97	6.00
5-6 to 6-0 (5/1/77)	34.18	68.36	102.54	136.72	5.77	6.03	6.01
6-0 to 6-6 (11/1/77)	35.21	70.42	105.63	140.84	5.79	6.02	6.00
6-6 to 7-0 (5/1/78)	36.27	72.54	108.81	145.08	5.81	6.01	6.00
7-0 to 7-6 (11/1/78)	37.36	74.72	112.08	149.44	5.82	5.94	6.00
7-6 to 8-0 (5/1/79)	38.47	76.94	115.41	153.88	5.83	6.08	6.01
8-0 to 8-6 (11/1/79)	39.64	79.28	118.92	158.56	5.85	5.95	5.99
8-6 to 9-0 (5/1/80)	40.82	81.64	122.46	163.28	5.85	6.03	6.01
9-0 to 9-6 (11/1/80)	42.05	84.10	126.15	168.20	5.86	5.99	6.00
9-6 to 10-0 (5/1/81)	43.31	86.62	129.93	173.24	5.87	6.00	6.00
10-0 [2] (11/1/81)	44.61	89.22	133.83	178.44	[3] 5.88		

[1] Month, day, and year on which issues of May 1, 1967, enter each period.
[2] Extended maturity reached at 14 yrs. 6 mos. after issue.
[3] Yield on purchase price from issue date to extended maturity date is 5.52 percent.

TABLE 2.—NOTES BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1967

Issue price		$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination		25.00	50.00	75.00	100.00			
Period (years and months after original maturity at 4 yrs. 6 mos.)		(1) Redemption values during each half-year period (values increase on 1st day of period) — EXTENDED MATURITY PERIOD				(2) From beginning of current 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*
2-0 to 2-6	[1] (12/1/73)	$27.87	$55.74	$83.61	$111.48	5.51	5.96	6.00
2-6 to 3-0	(6/1/74)	28.70	57.40	86.10	114.80	5.60	5.99	6.00
3-0 to 3-6	(12/1/74)	29.56	59.12	88.68	118.24	5.66	6.02	6.00
3-6 to 4-0	(6/1/75)	30.45	60.90	91.35	121.80	5.71	5.98	6.00
4-0 to 4-6	(12/1/75)	31.36	62.72	94.08	125.44	5.75	5.99	6.00
4-6 to 5-0	(6/1/76)	32.30	64.60	96.90	129.20	5.77	6.01	6.00
5-0 to 5-6	(12/1/76)	33.27	66.54	99.81	133.08	5.80	6.01	6.00
5-6 to 6-0	(6/1/77)	34.27	68.54	102.81	137.08	5.82	6.01	6.00
6-0 to 6-6	(12/1/77)	35.30	70.60	105.90	141.20	5.83	6.01	6.00
6-6 to 7-0	(6/1/78)	36.36	72.72	109.08	145.44	5.85	6.00	6.00
7-0 to 7-6	(12/1/78)	37.45	74.90	112.35	149.80	5.86	5.98	6.00
7-6 to 8-0	(6/1/79)	38.57	77.14	115.71	154.28	5.87	6.02	6.01
8-0 to 8-6	(12/1/79)	39.73	79.43	119.19	158.92	5.88	5.99	6.00
8-6 to 9-0	(6/1/80)	40.92	81.84	122.76	163.68	5.88	6.01	6.01
9-0 to 9-6	(12/1/80)	42.15	84.30	126.45	168.60	5.89	5.98	6.01
9-6 to 10-0	(6/1/81)	43.41	86.82	130.23	173.64	5.89	6.04	6.04
10-0 [2]	(12/1/81)	44.72	89.44	134.16	178.88	[3] 5.90		

[1] Month, day, and year on which issues of June 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.

[2] Extended maturity reached at 14 yrs. 6 mos. after issue.

[3] Yield on purchase price from issue date to extended maturity date is 5.54 percent.

TABLE 3.—NOTES BEARING ISSUE DATES FROM DEC. 1, 1967 THROUGH MAY 1, 1968

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after original maturity at 4 yrs. 6 mos.)	(1) Redemption values during each half-year period (values increase on 1st day of period) — EXTENDED MATURITY PERIOD				(2) From beginning of current 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*
1-6 to 2-0 [1] (12-1-73)	$27.12	$54.24	$81.36	$108.48	5.50	6.05	6.00
2-0 to 2-6 (6/1/74)	27.94	55.88	83.82	111.76	5.64	5.94	6.00
2-6 to 3-0 (12/1/74)	28.77	57.54	86.31	115.08	5.70	6.05	6.00
3-0 to 3-6 (6/1/75)	29.64	59.28	88.92	118.56	5.76	6.01	6.00
3-6 to 4-0 (12/1/75)	30.53	61.06	91.59	122.12	5.79	5.96	5.99
4-0 to 4-6 (6/1/76)	31.44	62.88	94.32	125.76	5.81	5.98	6.00
4-6 to 5-0 (12/1/76)	32.38	64.76	97.14	129.52	5.83	5.99	6.00
5-0 to 5-6 (6/1/77)	33.35	66.70	100.05	133.40	5.85	6.00	6.00
5-6 to 6-0 (12/1/77)	34.35	68.70	103.05	137.40	5.86	6.06	6.00
6-0 to 6-6 (6/1/78)	35.39	70.78	106.17	141.56	5.88	5.93	5.99
6-6 to 7-0 (12/1/78)	36.44	72.88	109.32	145.76	5.88	6.04	6.00
7-0 to 7-6 (6/1/79)	37.54	75.08	112.62	150.16	5.89	5.97	6.00
7-6 to 8-0 (12/1/79)	38.66	77.32	115.98	154.64	5.90	6.05	6.00
8-0 to 8-6 (6/1/80)	39.83	79.66	119.49	159.32	5.91	5.98	5.99
8-6 to 9-0 (12/1/80)	41.02	82.04	123.06	164.08	5.91	6.00	5.99
9-0 to 9-6 (6/1/81)	42.25	84.50	126.75	169.00	5.92	6.01	5.99
9-6 to 10-0 (12/1/81)	43.52	87.04	130.56	174.08	5.92	5.97	5.97
10-0 [2] (6/1/82)	44.82	89.64	134.46	179.28	[3] 5.92		

[1] Month, day, and year on which issues of Dec. 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.

[2] Extended maturity reached at 14 yrs. 6 mos. after issue.

[3] Yield on purchase price from issue date to extended maturity date is 5.56 percent.

TABLE 4.—NOTES BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1968

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after original maturity at 4 yrs. 6 mos.)	(1) Redemption values during each half-year period (values increase on 1st day of period) EXTENDED MATURITY PERIOD				(2) From beginning of current 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
1-0 to 1-6 [1] (12/1/73)	$26.70	$53.40	$80.10	$106.80	5.50	5.99	6.00
1-6 to 2-0 (6/1/74)	27.50	55.00	82.50	110.00	5.66	6.04	6.00
2-0 to 2-6 (12/1/74)	28.33	56.66	84.99	113.32	5.76	5.93	6.00
2-6 to 3-0 (6/1/75)	29.17	58.34	87.51	116.68	5.79	6.03	6.00
3-0 to 3-6 (12/1/75)	30.05	60.10	90.15	120.20	5.83	5.99	6.00
3-6 to 4-0 (6/1/76)	30.95	61.90	92.85	123.80	5.85	6.01	6.00
4-0 to 4-6 (12/1/76)	31.88	63.76	95.64	127.52	5.87	5.96	6.00
4-6 to 5-0 (6/1/77)	32.83	65.66	98.49	131.32	5.88	6.03	6.01
5-0 to 5-6 (12/1/77)	33.82	67.64	101.46	135.28	5.90	5.97	6.00
5-6 to 6-0 (6/1/78)	34.83	69.66	104.49	139.32	5.90	6.03	6.01
6-0 to 6-6 (12/1/78)	35.88	71.76	107.64	143.52	5.92	5.96	6.00
6-6 to 7-0 (6/1/79)	36.95	73.90	110.85	147.80	5.92	6.01	6.01
7-0 to 7-6 (12/1/79)	38.06	76.12	114.18	152.24	5.93	6.04	6.01
7-6 to 8-0 (6/1/80)	39.21	78.42	117.63	156.84	5.93	6.02	6.00
8-0 to 8-6 (12/1/80)	40.39	80.78	121.17	161.56	5.94	5.99	6.00
8-6 to 9-0 (6/1/81)	41.60	83.20	124.80	166.40	5.94	5.96	6.00
9-0 to 9-6 (12/1/81)	42.84	85.68	128.52	171.36	5.94	6.07	6.03
9-6 to 10-0 (6/1/82)	44.14	88.28	132.42	176.56	5.95	5.98	5.98
10-0 [2] (12/1/82)	45.46	90.92	136.38	181.84	[3] 5.95		

[1] Month, day, and year on which issues of June 1, 1968, enter each period. For subsequent issue months add the appropriate number of months.

[2] Extended maturity reached at 14 yrs. 6 mos after issue.

[3] Yield on purchase price from issue date to extended maturity date is 5.66 percent.

TABLE 5.—NOTES BEARING ISSUE DATES FROM DEC. 1, 1968, THROUGH MAY 1, 1969

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after original maturity at 4 yrs. 6 mos.)	(1) Redemption values during each half-year period (values increase on 1st day of period) EXTENDED MATURITY PERIOD				(2) From beginning of current 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
0-6 to 1-0 [1] (12/1/73)	$25.99	$51.98	$77.97	$103.96	5.54	5.93	6.00
1-0 to 1-6 (6/1/74)	26.76	53.52	80.28	107.04	5.73	5.98	6.00
1-6 to 2-0 (12/1/74)	27.56	55.12	82.68	110.24	5.81	6.10	6.00
2-0 to 2-6 (6/1/75)	28.40	56.80	85.20	113.60	5.88	5.92	6.00
2-6 to 3-0 (12/1/75)	29.24	58.48	87.72	116.96	5.89	6.02	6.00
3-0 to 3-6 (6/1/76)	30.12	60.24	90.36	120.48	5.91	6.04	6.00
3-6 to 4-0 (12/1/76)	31.03	62.06	93.09	124.12	5.93	5.99	6.00
4-0 to 4-6 (6/1/77)	31.96	63.92	95.88	127.84	5.94	5.94	6.00
4-6 to 5-0 (12/1/77)	32.91	65.82	98.73	131.64	5.94	6.02	6.01
5-0 to 5-6 (6/1/78)	33.90	67.80	101.70	135.60	5.95	6.02	6.01
5-6 to 6-0 (12/1/78)	34.92	69.84	104.76	139.68	5.95	6.01	6.00
6-0 to 6-6 (6/1/79)	35.97	71.94	107.91	143.88	5.96	5.95	6.00
6-6 to 7-0 (12/1/79)	37.04	74.08	111.12	148.16	5.96	6.05	6.01
7-0 to 7-6 (6/1/80)	38.16	76.32	114.48	152.64	5.96	5.97	6.00
7-6 to 8-0 (12/1/80)	39.30	78.60	117.90	157.20	5.96	6.06	6.01
8-0 to 8-6 (6/1/81)	40.49	80.98	121.47	161.96	5.97	5.98	6.00
8-6 to 9-0 (12/1/81)	41.70	83.40	125.10	166.80	5.97	6.00	6.00
9-0 to 9-6 (6/1/82)	42.95	85.90	128.85	171.80	5.97	6.01	6.01
9-6 to 10-0 (12/1/82)	44.24	88.48	132.72	176.96	5.97	6.01	6.01
10-0 [2] (6/1/83)	45.57	91.14	136.71	182.28	[3] 5.98		

[1] Month, day, and year on which issues of Dec. 1, 1968, enter each period. For subsequent issue months add the appropriate number of months.

[2] Extended maturity reached at 14 yrs. 6 mos. after issue.

[3] Yield on purchase price from issue date to extended maturity date is 5.67 percent.

TABLE 6.—NOTES BEARING ISSUE DATES FROM JUNE 1 THROUGH NOV. 1, 1969

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after original maturity at 4 yrs. 6 mos.)	(1) Redemption values during each half-year period (values increase on 1st day of period) EXTENDED MATURITY PERIOD				(2) From beginning of current 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*
0-0 to 0-6 [1] (12/1/73)	$25.29	$50.58	$75.87	$101.16	----------------	6.01	6.00
0-6 to 1-0 (6/1/74)	26.05	52.10	78.15	104.20	6.01	5.99	6.00
1-0 to 1-6 (12/1/74)	26.83	53.66	80.49	107.32	6.00	6.04	6.00
1-6 to 2-0 (6/1/75)	27.64	55.28	82.92	110.56	6.01	5.93	6.00
2-0 to 2-6 (12/1/75)	28.46	56.92	85.38	113.84	5.99	6.04	6.00
2-6 to 3-0 (6/1/76)	29.32	58.64	87.96	117.28	6.00	6.00	6.00
3-0 to 3-6 (12/1/76)	30.20	60.40	90.60	120.80	6.00	5.96	6.00
3-6 to 4-0 (6/1/77)	31.10	62.20	93.30	124.40	6.00	6.05	6.00
4-0 to 4-6 (12/1/77)	32.04	64.08	96.12	128.16	6.00	5.99	6.00
4-6 to 5-0 (6/1/78)	33.00	66.00	99.00	132.00	6.00	6.00	6.00
5-0 to 5-6 (12/1/78)	33.99	67.98	101.97	135.96	6.00	6.00	6.00
5-6 to 6-0 (6/1/79)	35.01	70.02	105.03	140.04	6.00	6.00	6.00
6-0 to 6-6 (12/1/79)	36.06	72.12	108.18	144.24	6.00	5.99	6.00
6-6 to 7-0 (6/1/80)	37.14	74.28	111.42	148.56	6.00	5.98	6.00
7-0 to 7-6 (12/1/80)	38.25	76.50	114.75	153.00	6.00	6.01	6.01
7-6 to 8-0 (6/1/81)	39.40	78.80	118.20	157.60	6.00	5.99	6.00
8-0 to 8-6 (12/1/81)	40.58	81.16	121.74	162.32	6.00	6.01	6.01
8-6 to 9-0 (6/1/82)	41.80	83.60	125.40	167.20	6.00	5.98	6.01
9-0 to 9-6 (12/1/82)	43.05	86.10	129.15	172.20	6.00	6.04	6.02
9-6 to 10-0 (6/1/83)	44.35	88.70	133.05	177.40	6.00	6.00	6.00
10-0 [2] (12/1/83)	45.68	91.36	137.04	182.72	[3] 6.00	----------------	----------------

[1] Month, day, and year on which issues of June 1, 1969, enter each period. For subsequent issue months add the appropriate number of months.

[2] Extended maturity reached at 14 yrs. 6 mos. after issue.

[3] Yield on purchase price from issue date to extended maturity date is 5.69 percent.

TABLE 7.—NOTES BEARING ISSUE DATES FROM DEC. 1, 1969, THROUGH MAY 1, 1970

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on 1st day of period)				(2) From beginning of current 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 (a) to maturity
					Percent	*Percent*	*Percen*
4-0 to 4-6 [1] (12/1/73)	$24.36	$48.72	$73.08	$97.44	4.67	8.13	8.1
4-6 [2] (6/1/74)	25.35	50.70	76.05	101.40	5.05		
(Years and months after maturity date)	EXTENDED MATURITY PERIOD						(b) to extended maturity
0-0 to 0-6 (6/1/74)	$25.35	$50.70	$76.05	$101.40		6.00	6.0
0-6 to 1-0 (12/1/74)	26.11	52.22	78.33	104.44	6.00	5.97	6.0
1-0 to 1-6 (6/1/75)	26.89	53.78	80.67	107.56	5.99	6.02	6.0
1-6 to 2-0 (12/1/75)	27.70	55.40	83.10	110.80	6.00	5.99	6.0
2-0 to 2-6 (6/1/76)	28.53	57.06	85.59	114.12	6.00	6.03	6.0
2-6 to 3-0 (12/1/76)	29.39	58.78	88.17	117.56	6.00	5.99	6.0
3-0 to 3-6 (6/1/77)	30.27	60.54	90.81	121.08	6.00	6.01	6.0
3-6 to 4-0 (12/1/77)	31.18	62.36	93.54	124.72	6.00	5.97	6.0
4-0 to 4-6 (6/1/78)	32.11	64.22	96.33	128.44	6.00	6.04	6.0
4-6 to 5-0 (12/1/78)	33.08	66.16	99.24	132.32	6.00	5.99	6.0
5-0 to 5-6 (6/1/79)	34.07	68.14	102.21	136.28	6.00	5.99	6.0
5-6 to 6-0 (12/1/79)	35.09	70.18	105.27	140.36	6.00	5.98	6.0
6-0 to 6-6 (6/1/80)	36.14	72.28	108.42	144.56	6.00	6.03	6.0
6-6 to 7-0 (12/1/80)	37.23	74.46	111.69	148.92	6.00	5.96	5.9
7-0 to 7-6 (6/1/81)	38.34	76.68	115.02	153.36	6.00	6.00	6.0
7-6 to 8-0 (12/1/81)	39.49	78.98	118.47	157.96	6.00	6.03	6.0
8-0 to 8-6 (6/1/82)	40.68	81.36	122.04	162.72	6.00	6.00	5.9
8-6 to 9-0 (12/1/82)	41.90	83.80	125.70	167.60	6.00	6.01	5.9
9-0 to 9-6 (6/1/83)	43.16	86.32	129.48	172.64	6.00	5.98	5.9
9-6 to 10-0 (12/1/83)	44.45	88.90	133.35	177.80	6.00	5.98	5.9
10-0 [3] (6/1/84)	45.78	91.56	137.34	183.12	[4] 6.00		

[1] Month, day, and year on which issues of Dec. 1, 1969, enter each period. For subsequent issue months add the appropriate number of months.
[2] Maturity reached at 4 yrs. 6 mos. after issue
[3] Extended maturity reached at 14 yrs. 6 mos. after issue.
[4] Yield on purchase price from issue date to extended maturity date is 5.71 percent.

TABLE 8.—NOTES BEARING ISSUE DATE JUNE 1, 1970

Issue price	$20.25	$40.50	$60.75	$81.00	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on 1st day of period)				(2) From beginning of current 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 (a) to maturity
					Percent	*Percent*	*Percent*
3-6 to 4-0 [1] (12/1/73)	$23.74	$47.48	$71.22	$94.96	4.60	5.73	6.91
4-0 to 4-6 (6/1/74)	24.42	48.84	73.26	97.68	4.74	8.11	8.11
4-6 [2] (12/1/74)	25.41	50.82	76.23	101.64	5.11		
(years and months after maturity date)	EXTENDED MATURITY PERIOD						(b) to extended maturity
0-0 to 0-6 (12/1/74)	$25.41	$50.82	$76.23	$101.64		5.98	6.00
0-6 to 1-0 (6/1/75)	26.17	52.34	78.51	104.68	5.98	6.04	6.00
1-0 to 1-6 (12/1/75)	26.96	53.92	80.88	107.84	6.01	6.01	6.00
1-6 to 2-0 (6/1/76)	27.77	55.54	83.31	111.08	6.01	5.98	6.00
2-0 to 2-6 (12/1/76)	28.60	57.20	85.80	114.40	6.00	6.01	6.00
2-6 to 3-0 (6/1/77)	29.46	58.92	88.38	117.84	6.00	5.97	6.00
3-0 to 3-6 (12/1/77)	30.34	60.68	91.02	121.36	6.00	6.00	6.00
3-6 to 4-0 (6/1/78)	31.25	62.50	93.75	125.00	6.00	6.02	6.00
4-0 to 4-6 (12/1/78)	32.19	64.38	96.57	128.76	6.00	5.96	6.00
4-6 to 5-0 (6/1/79)	33.15	66.30	99.45	132.60	6.00	6.03	6.00
5-0 to 5-6 (12/1/79)	34.15	68.30	102.45	136.60	6.00	5.97	6.00
5-6 to 6-0 (6/1/80)	35.17	70.34	105.51	140.68	6.00	6.03	6.00
6-0 to 6-6 (12/1/80)	36.23	72.46	108.69	144.92	6.00	6.02	6.00
6-6 to 7-0 (6/1/81)	37.32	74.64	111.96	149.28	6.00	5.95	5.99
7-0 to 7-6 (12/1/81)	38.43	76.86	115.29	153.72	6.00	6.04	6.00
7-6 to 8-0 (6/1/82)	39.59	79.18	118.77	158.36	6.00	6.01	5.99
8-0 to 8-6 (12/1/82)	40.78	81.56	122.34	163.12	6.00	5.98	5.99
8-6 to 9-0 (6/1/83)	42.00	84.00	126.00	168.00	6.00	6.00	5.99
9-0 to 9-6 (12/1/83)	43.26	86.52	129.78	173.04	6.00	6.01	5.99
9-6 to 10-0 (6/1/84)	44.56	89.12	133.68	178.24	6.00	5.97	5.97
10-0 [3] (12/1/84)	45.89	91.78	137.67	183.56	[4] 6.00		

[1] Month, day, and year on which issues of June 1, 1970, enter each period.
[2] Maturity reached at 4 yrs. 6 mos. after issue.
[3] Extended maturity reached at 14 yrs. 6 mos. after issue.
[4] Yield on purchase price from issue date to extended maturity date is 5.72 percent.

Exhibit 10.—Department Circular, Public Debt Series No. 11-73, December 19, 1973, regulations governing 5 percent Treasury certificates of indebtedness—R.E.A. series

DEPARTMENT OF THE TREASURY,
Washington, December 19, 1973.

AUTHORITY: 31 U.S.C. 754 and 754b; 5 U.S.C. 301.

§ 345.0 Offering of certificates.

The Secretary of the Treasury, under the authority of the Second Liberty Bond Act, as amended, offers to borrowers from the Rural Electrification Administration and Rural Telephone Bank, U.S. Department of Agriculture, 5 Percent Treasury Certificates of Indebtedness—R.E.A. Series. This offering will continue until terminated by the Secretary of the Treasury.

§ 345.1 Description of certificates.

(a) *General.* The certificates of indebtedness 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.* The certificates, bearing interest at the rate of 5 percent per annum, will be issued in multiples of $1,000, and will mature one year from issue date. Interest on the certificates will be computed on an annual basis and, unless redeemed prior to maturity, will be payable six months from issue date and at maturity.

§ 345.2 Subscription for purchase.

The recipient of a 5 percent loan from the Rural Electrification Administration or Rural Telephone Bank may subscribe for certificates under this offering, up to the amount of the unexpended portion of the loan, by submitting a subscription, together with the remittance, to the Bureau of the Public Debt, Division of Securities Operations, Washington, D.C. 20226. The subscription form must show the amount of certificates desired, and give the title of the designated official of the borrower authorized to redeem them.

§ 345.3 Issue date and payment.

The issue date of a certificate shall be the date on which the subscription form, and funds in full payment therefor, are received by the office described in § 345.2. A confirmation of the issuance, in the form of a written advice, which shall specify the amount and describe the certificates by title and maturity date, shall be issued to the subscriber.

§ 345.4 Redemption/reinvestment.

(a) *At maturity.* A certificate may not be called for redemption by the Secretary of the Treasury prior to maturity except when the amount of the unexpended portion of the loan from the Rural Electrification Administration or Rural Telephone Bank is less than the face amount of the certificate. Unless the Treasury has received from the owner, at least one week prior to the maturity date of a certificate, a written request for payment at maturity, it shall automatically redeem the same at maturity, and reinvest in the owner's name the principal amount in a new certificate having the same description in all material respects as the one redeemed. No such automatic reinvestment shall be made, however, in excess of the amount of the unexpended portion of the loan from the Rural Electrification Administration or the Rural Telephone Bank.

(b) *Prior to maturity.* A certificate may be redeemed prior to maturity at par and accrued interest at the owner's option on one week's notice in writing after one month from the issue date. A certificate issued upon reinvestment, as provided in paragraph (a) of this section, shall not be subject to the one-month holding period. A notice to redeem a certificate prior to its 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 or wire.

§ 345.5 General provisions.

(a) *Regulations.* Five Percent Treasury Certificates of Indebtedness—R.E.A. 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, Department of the Treasury, Washington, D.C. 20226, or a Federal Reserve Bank or Branch.

(b) *Reservations.* The Secretary of the Treasury reserves the right to reject any application for the purchase of certificates hereunder, in whole or in part, and to refuse to issue or permit to be issued any such certificates 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.

JOHN K. CARLOCK,
Fiscal Assistant Secretary of the Treasury.

Exhibit 11.—An act to continue the existing temporary increase in the public debt limit through November 30, 1973, and for other purposes

[Public Law 93–53, 93d Congress, H.R. 8410, July 1, 1973]

86 Stat. 1324.
31 USC 757b note.
Interest rates.
40 Stat. 288.
87 Stat. 134
87 Stat. 135

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 101 of the Act of October 27, 1972, providing for a temporary increase in the public debt limit for the fiscal year ending June 30, 1973 (Public Law 92–599), is amended by striking out "June 30, 1973" and inserting in lieu thereof "November 30, 1973".

SEC. 2. The last sentence of the second paragraph of the first section of the Second Liberty Bond Act, as amended (31 U.S.C. 752), is amended to read as follows: "Bonds authorized by this section may be issued from time to time to the public and to Government accounts at a rate or rates of interest exceeding 4¼ per centum per annum; except that bonds may not be issued under this section to the public, or sold by a Government account to the public, with a rate of interest exceeding 4¼ per centum per annum in an amount which would cause the face amount of bonds issued under this section then held by the public with rates of interest exceeding 4¼ per centum per annum to exceed $10,000,000,000."

SEC. 3. (a) Section 22 of the Second Liberty Bond Act, as amended (31 U.S.C. 757c), is amended by adding at the end thereof the following new subsection:

Tax refund check-bond.
49 Stat. 21;
59 Stat. 47.
68A Stat. 3;
83 Stat. 600.
26 USC 1 *et seq.*

"(j) (1) The Secretary of the Treasury is authorized to prescribe by regulations that checks issued to individuals (other than trusts and estates) as refunds made in respect of the taxes imposed by subtitle A of the Internal Revenue Code of 1954 may, at the time and in the manner provided in such regulations, become United States savings bonds of series E. Except as provided in paragraph (2), bonds issued under this subsection shall be treated for all purposes of law as series E bonds issued under this section. This subsection shall apply only if the claim for refund was filed on or before the last day prescribed by law for filing the return (determined without extensions thereof) for the taxable year in respect of which the refund is made."

"(2) Any check-bond issued under this subsection shall bear an issue date of the first day of the first calendar month beginning after the close of the taxable year for which issued."

"(3) In the case of any check-bond issued under this subsection to joint payees, the regulations prescribed under this subsection may provide that either payee may redeem the bond upon his requests."

(b) The amendment made by subsection (a) shall apply with respect to refunds made after December 31, 1973.

Exhibit 12.—An act to provide for a temporary increase of $10,700,000,000 in the public debt limit and to extend the period to which this temporary limit applies to June 30, 1974

[Public Law 93–173, 93d Congress, H.R. 11104, December 3, 1973]

Ante, p. 134; 87 Stat. 691.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That during the period beginning on the date of the enactment of this Act and ending on June 30, 1974, 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 $75,700,000,000.

SEC. 2. Effective on the date of the enactment of this Act, section 101 of the Act of October 27, 1972, providing for a temporary increase in the public debt limit for the fiscal year ending June 30, 1973 (Public Law 92–599), as amended by the first section of Public Law 93–53, is hereby repealed.

Exhibit 13.—An act to provide for a temporary increase in the public debt limit

[Public Law 93–173, 93d Congress, H.R. 14832, June 30, 1974]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That during the period beginning on the date of the enactment of this Act and ending on March 31, 1975, 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 $95,000,000,000.

SEC. 2. Effective on the date of the enactment of this Act, the first section of the Act of December 3, 1973, providing for a temporary increase in the public debt limit for a period ending June 30, 1974 (Public Law 93–173), is hereby repealed.

Domestic Economic Policy

Exhibit 14.—Statement by Secretary Shultz, August 2, 1973, before the Joint Economic Committee, giving a midyear review of the economy

It is a pleasure to be here today to participate in your midyear review of the economy. I recognize that the members of the Council of Economic Advisers participated in an extensive and detailed review with you here yesterday, so I shall limit my opening remarks to a few basic points.

In the first half of the year, the economy moved very rapidly toward full employment of its manpower and productive facilities. The pace of domestic economic expansion exceeded expectations and there were unusually large gains in production and employment.

Some other developments were far less welcome. The dollar declined in value both in terms of foreign currencies and in terms of purchasing power for U.S. goods and services. It was necessary to resort again to a temporary freeze on domestic prices. These developments testify to the need for policies that will guide the economy on to a much less inflationary path of expansion.

There is no mystery as to the correct direction for policies during such a period of intense inflationary pressure. Fiscal and monetary policies must exert a restraining influence. No wage-price control program, however well designed, can achieve its objectives if total spending is pressing hard against productive capacity. In the present situation, there can be no ducking the need for restraint in fiscal and monetary policies if more serious inflationary risks are to be avoided.

It is clear that continued control of Federal spending takes on a new urgency. As I stressed in my appearance before your committee earlier this year, it is critical that the Congress and the executive branch cooperate closely in this important effort.

This committee was instrumental in the successful efforts to hold Federal spending below $250 billion during fiscal year 1973. Certainly there have been many differences between the Congress and the administration over specific Federal program cutbacks and spending reductions, but the important point is that our spending goal was achieved.

Together, we now have an even more challenging problem. Inflation has emerged as our number one economic problem, and we must insure that our financial policies are adequately combating rising prices. Phase IV of the economic stabilization program can help to moderate inflation. The main weapon against inflation, however, remains our financial policies, supplemented by special measures to encourage increased supplies of goods and services.

I would like to emphasize our judgment that fiscal restraint is imperative, and the operational necessity for exerting that restraint on expenditures. We have estimated that fiscal 1974 revenues will approximate the outlay level proposed by the President last January. With the help of the Congress, expenditures can be held to that level, and we can then look forward to a balanced budget. This budget will make available an additional $20 billion for Federal spending over last year's levels, but it will still require a major effort by both the Congress and the administration to live within that spending total.

Nonetheless, such restraint must be exercised if we are to avoid an unacceptable rate of inflation or higher taxes—or both.

The rate of advance in real output during the first half of the year was impressive. However, price performance during the first half of the year was most unsatisfactory. For example, the GNP deflator rose at nearly a 6½-percent annual rate in contrast to about a 3-percent annual rate in the last half of 1972. Consumer prices rose at an 8-percent annual rate in contrast to less than a 4-percent annual rate in the last half of 1972. Rates of advance in certain components of the Wholesale Price Index, especially for agricultural products and other raw materials, were extremely rapid in the first half of the year.

A number of factors combined to trigger this burst of inflation. They include the pressure of rising worldwide demand for basic materials, crop failures abroad, bad weather at home, and repeated threats of price freezes and rollbacks.

By late spring and early summer, it became clear that further policy actions would be needed to contain inflation. As you know, President Nixon announced on June 13 the reimposition of a temporary price freeze of up to 60 days' duration. Subsequently, on July 18, we announced the Phase IV controls program which will take effect in stages.

Phase IV is a tough program. It is designed to spread the inevitable bulge of postfreeze price increases over a period of some months and to minimize the impact of inflationary pressures thereafter. The program is designed to fit the special circumstances of certain industries, and some industries will be exempted from price controls based on their own favorable pricing track record.

A wide range of important actions have been taken to increase agricultural supplies and will be yielding their benefits later this year and next. In all the circumstances, wage pressures have been moderate and can continue to be if price rises are restrained. Given the essential support of restrictive fiscal and monetary policies, the economy will work its way through to much lower rates of inflation.

Since I appeared before you in February, international payments trends have moved toward equilibrium, interim arrangements for exchange market operations have been established, and important steps taken toward international economic reform.

The exchange rate changes over the past 2 years have laid the foundation for restoring international and, specifically, U.S. balance of payments equilibrium. That foundation would be undermined if recent rates of inflation were allowed to continue. I am confident we can keep that from happening.

Our trade accounts have improved more than might have been expected in a time of rapid growth in this country. Our trade deficit, which was nearly $7 billion in 1972, was only $1¼ billion in the first half of 1973. The large expansion of agricultural exports has been the most important factor improving our trade balance. Agricultural exports have probably reached a peak. But they will remain at a high level while our industrial trade balance improves.

After some turmoil in the foreign exchange markets in February and early March, members of the Group of Ten and the European Community agreed on interim monetary arrangements until an improved payments equilibrium could be achieved and monetary reform negotiations completed. These interim arrangements reflect recognition of the unusual strains and speculative forces during this period of basic adjustment. Rather than a rigid defense of fixed parities, they permit elasticity in exchange rates in response to market forces.

Since that time the currencies of the European Community which are jointly floating have appreciated significantly in relation to the dollar. Indeed, this movement has extended beyond the changes that we and others have felt is necessary to meet the requirements of longer term equilibrium. At the same time the dollar has remained quite stable in relation to the currencies of Canada, Japan, the developing countries; the United Kingdom, and Italy—countries which account in total for three-quarters of our trade. We and others are prepared to intervene in exchange markets when necessary and desirable, to maintain orderly conditions. I am convinced—and this view is shared by most of my colleagues abroad—that the transitional arrangements in place are the best available response to current circumstances.

Meanwhile we are tackling the problem of establishing a permanent system with a strong sense of urgency. Two days ago the C–20 Ministerial Committee on International Monetary Reform completed its third meeting. We had a very useful give-and-take discussion on some of the key issues, and I believe we can begin to see the outline of workable solutions in important areas. Significant differences certainly remain, but it is clear to me that there is a general will to keep the ball rolling toward an agreed reform. I am particularly encouraged that there appears to be increasing acceptance of certain elements we have felt extremely important, including the need for symmetry in adjustment pressures between deficit and surplus countries and the necessity of backbone in the provisions to assure adjustment in the new system. As had been agreed in advance the meeting was a working session with no communique. I expect that the Committee will be able to summarize in more concrete terms the progress it has made at the annual meeting of the International Monetary Fund in Nairobi at the end of September and that we can proceed thereafter to hammering out a detailed agreement.

Exhibit 15.—Remarks of Assistant Secretary Fiedler, September 25, 1973, before the Conference Board's "Business in 1974" Conference, New York, N.Y., on prices, costs, and controls

The explosion of price inflation in 1973 has rocked the American economic boat in a most profound way. Economists everywhere entered the year with almost a sanguine outlook about inflation. None foresaw the traumatic experience that has taken place these past months.

And it has been a traumatic experience. Five-dollar wheat, a second price freeze, a beef shortage, export controls, and gasoline station closings all attest dramatically to the psychic shock suffered by the American public in 1973. The people are so confused by these events that in July a public-opinion poll registered the dominant belief of Americans to be that the economy is in a recession. Another interesting result from the national polls was a July sampling that showed a 76–16 margin in favor of rolling back food prices and then freezing them, followed by an August sampling that showed, by a 54–32 margin, a belief that putting controls on beef prices creates a shortage.

Nature of this inflation

Our inflation problem is very complex. There is no single dominant reason for the present inflation, nor is there any simple solution to it.

There is, however, one way in which the 1973 experience has been drastically different from the inflation that we have had, off and on, over the past two decades. To an extraordinary degree, the recent inflation has been a *commodity* inflation. It has been concentrated in farm and food products and in industrial raw materials to a degree that we have not seen since the early 1950's.

To a considerable extent, then, the acceleration of inflation that took place in 1973 can be explained very simply, by just two factors. Factor number one is the reduced output of agricultural products around the world. Global cereal production fell a disastrous 4 percent from 1971 to 1972. Wet weather hurt the soybean harvest in the United States at the same time that the Peruvian anchovies disappeared. Similar supply shortfalls hit cotton and other farm commodities. Together, these difficulties created unprecedented pressures on farm and food prices.

Factor number two is the strong economic boom that is taking place simultaneously in virtually every industrialized country in the world. Perhaps never before have so many countries experienced such rapid growth in output at the same time. The inevitable result is a supply-demand imbalance in all major industrial raw materials and an unprecedented burst of price increases.

To see how completely farm and raw-material commodities have dominated our recent inflation, it is necessary only to examine the composition of the Wholesale Price Index. Virtually every commodity with the fastest price increases over the past year is in one of these two categories (see table 1). Further, virtually every one is either traded in international markets or is closely related to a commodity that is.

Another measure of the concentration of our recent inflation in commodities is the fact that more than two-thirds of the rise in consumer prices since the beginning of 1973 has been accounted for by food and petroleum products alone. Leaving those two sectors aside, consumer prices have increased at an annual rate of 3.6 percent during 1973, very similar to the general experience in 1972.

TABLE 1.—*Largest price increases among commodity subgroups in the Wholesale Price Index, percent change, August 1972 to August 1973*

Farm and Food		*Nonfarm*	
Animal fats and oils	246	Fats and oils, inedible	125
Crude vegetable oils	173	Wastepaper	35
Grains	167	Wool products	33
Hay, hayseeds, and oilseeds	153	Petroleum products, refined	32
Live poultry	152	Lumber	28
Manufactured animal feeds	134	Other wood products	21
Eggs	111	Cotton products	20
Plant and animal fibers	90	Crude rubber	20
Livestock	64	Woodpulp	20
Refined vegetable oils	53	Nonferrous metals	18
Meats, poultry, and fish	50	Gas fuels	14
Vegetable oil end products	33	Millwork	14
Cereal and bakery products	18	Manmade fiber products	14
Fluid milk	18	Leather	12
Fruits and vegetables	17	Coal	12
Miscellaneous processed foods	13	Commercial furniture	10
Sugar and confectionery	12	Paperboard	10
Other farm products	12	Other leather products	10
Dairy products	11	Paint materials	10

An additional piece of evidence to support the thesis that the acceleration of inflation has been in commodities and not elsewhere is the recent behavior of wages. Over the past couple of decades, whenever price inflation reared its ugly head, wage inflation was very much a part of the picture. But this time, not so; wage increases have not accelerated in 1973. Over the past 12 months, the adjusted index of average hourly earnings has increased at about a 6½-percent rate, and thus far in 1973, wage and benefit settlements in major collective-bargaining situations have on average provided for increases of about 6 percent annually. Both of these statistics are within close range of the general wage standard of the stabilization program and close to the 1972 performance.

Economic policy

I do not want to carry this distinction between a commodity inflation and a more general inflation too far. To do so would soon show the distinction to be partly artificial; in particular, I do not want to imply that never the twain shall meet. But there is a certain analytical validity to the distinction, both in explaining what has gone on and in deciding what economic policy responses should be taken.

Recently, the most common criticism of fiscal and monetary policies is that they have been irresponsibly undisciplined and are therefore responsible for the 1973 explosion of inflation. That is a troublesome point of view, I feel, because it is difficult to see how a tighter policy stance either in the budget or by the Federal Reserve could have dealt effectively with crop failures or foreign oil cartels or economic booms abroad.

It is also difficult to see the reason for more restrictive policies when unemployment is at 4.8 percent and wage settlements are not accelerating. It is reasonable to argue that 4.8 percent unemployment is close to or even in the zone of full employment. It is, however, quite another thing to say that a jobless rate of 4.8 percent is *over*full employment and must be raised to fight inflation.

Given the nature of the current inflation and the level and movement of unemployment, the economic policy posture of the past couple of years has been broadly appropriate. A few of the relevant statistics are shown in table 2. While some questions might be raised—at the margin in my view—about the timing and degree of policy shifts in recent years, there is no argument about direction. As the economy strengthened and unemployment declined in 1972 and 1973, fiscal and monetary policies were shifted appropriately: stimulus was gradually withdrawn and supplanted by restraint.

Fighting commodity inflation

To supplement the general policy moves, the administration undertook a series of major actions designed to increase supplies of food and other commodities that are in short supply. In particular, farm policy was completely turned around. For 30 years the strategy had been to restrict production to raise farm prices to raise farm income. Today the policy is to increase output to the maximum extent possible.

Criticisms have been leveled at the speed with which this 180-degree change in farm policy was achieved. But to me (after several years of close observation of the responsiveness of the Federal bureaucracy) what is impressive is how expeditiously the shift was made.

A list of the more important supply actions taken over the past 2 years is attached in table 3. When brought together in one place, they make a rather imposing list, I think.

Direct price and wage controls

Another part of the Government's anti-inflation policies is the economic stabilization program, Phase IV of which is now in place. Rarely has there been a more unpopular program. The public is unhappy because Phase IV fails to suppress the numerous price increases, particularly for food, that are working their way through the system. Businessmen and labor leaders are disgruntled because controls limit their freedom, create inefficiencies in production and marketing, and generate a new layer of Government paperwork with which they must wrestle. Economists are troubled by the potential distortions and disincentives that controls can produce. Government officials are vexed by the difficulties of administering the controls, especially in the face of a strong economy.

TABLE 2.—*Measures of economic conditions and policy*

	1971	1972	1973 to date
Unemployment rate (percent):			
Total	5.9	5.6	4.9
Married males	3.2	2.8	2.3
Inflation (percent):			
Consumer prices	3.5	3.4	7.6
Private GNP deflator	3.9	3.5	7.5
Budget position ($ billions):			
Federal	−22.2	−15.9	−2.4
Total government	−18.1	−2.8	+10.3
Money supply growth (percent):			
Narrowly defined	6.9	7.4	5.7
Broadly defined	11.5	10.6	7.7

NOTE.—Rates of inflation and money supply growth are calculated from fourth quarter to fourth quarter; budget position represents the deficit or surplus for calender years on a national income accounts basis; 1973 data are at annual rates.

TABLE 3.—*Major anti-inflation supply actions*

Food

Sixty million acres of "set-aside" farm land have been released for production.
All USDA-owned stocks of grain have been sold.
All USDA loans on farm-stored grain have been called.
Rice acreage allotments have been increased 20 percent.
Restrictions on meat imports have been removed.
All direct export subsidies on food have been removed.
Import quotas on nonfat dry milk have been raised four times.
Cheese import quotas have been increased 50 percent.
Exports of vegetable oils under Government programs have been postponed.
Marketing orders and other rules of USDA are being coordinated with the Cost of Living Council.
Authority has been requested in the President's trade bill to adjust quotas and tariffs on all items in short supply.

Oil and gas

Oil import quotas have been terminated.
Acreage leased on the Continental Shelf for drilling for oil and gas has been tripled.
The President has asked for legislation to deregulate prices of natural gas at the wellhead.

Lumber

Sale of logs from the National Forests has been increased.
The Japanese have agreed to reduce imports of softwood logs from the United States.

Other materials

Stockpiles of basic materials no longer needed for national security reasons are being sold.
Legislation has been requested to provide additional authority for the sale of excess stockpiled materials.
The Japanese have agreed to reduce imports of steel scrap from the United States.

However unpopular they are, the controls do have an important, though limited, role to play. They can help prevent anticipatory increases in prices and wages. There is a great risk that in the wake of the commodity price explosion of 1973 the American people will think that serious inflation has become a permanent part of the economic landscape.

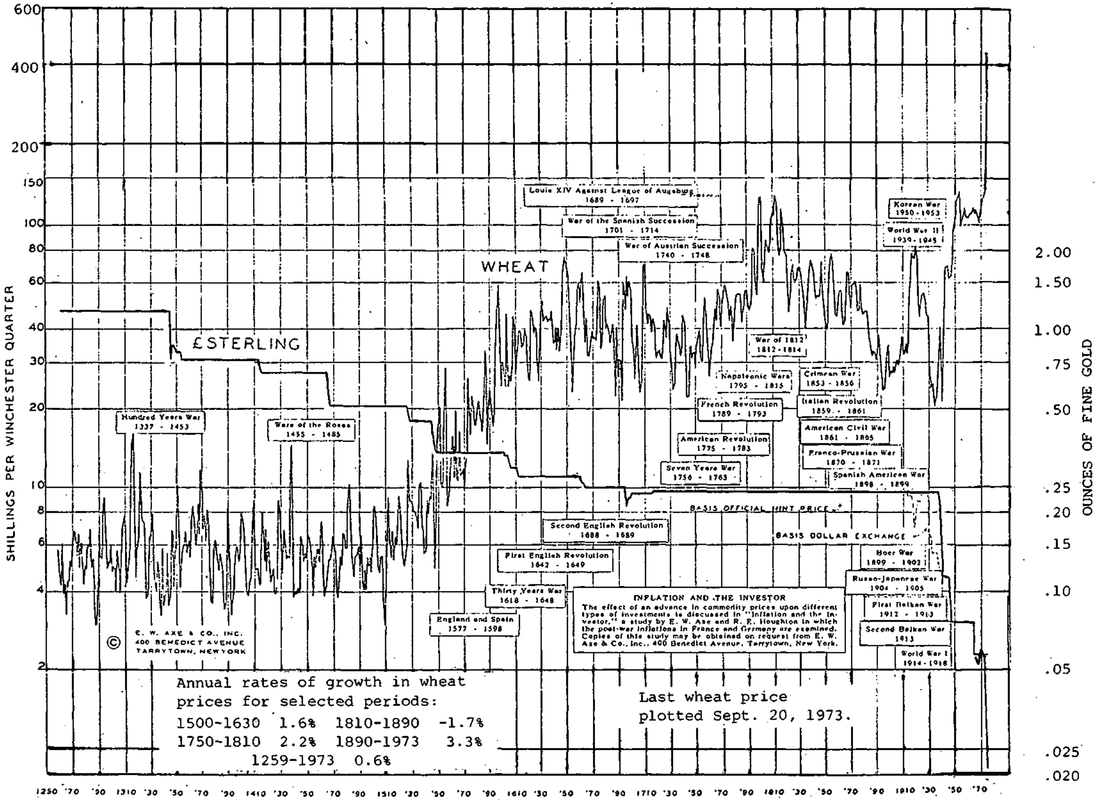
But past experience tells us that commodity inflation is reversible. The attached chart provides seven centuries of evidence of the reversibility of wheat prices. While the secular trend has been persistently upward at a moderate rate—about half a percent per year over the full period, and 3.3 percent per year over the past century—the real message of the chart is the short-term volatility of wheat prices. Again and again, enormous increases in one year were followed by equally large declines the next year as farmers responded to the favorable price by increasing production.

This same process is operating again today; production is increasing in response to high prices. At some point the supply of food and industrial raw materials will catch up with demand, and when that happens, commodity prices will fall.

Thus, businessmen must not build a constant upward trend into their pricing policies, irrespective of market conditions and irrespective of costs, in the mistaken view that the price explosion will continue indefinitely. Similarly, businessmen and workers, in their joint determination of future wage rates, must not anticipate a permanently high rate of inflation. We must not let the commodity inflation upset the very favorable wage performance of 1972 and 1973. To do so would build a price-wage-price spiral into the economy for at least several years ahead, and would make the problem of regaining reasonable stability a very much more difficult and painful undertaking. The function of Phase IV, therefore, is to help prevent the recent commodity inflation from becoming irreversibly institutionalized into the entire structure of our economy.

But the limits of controls must also be understood. There are serious limits on how much of the anti-inflation fight can be assigned to direct controls and on how long controls can continue to make a net positive contribution to that fight. The costs of controls must be reckoned with, along with the benefits.

THE PRICE OF WHEAT AND THE GOLD VALUE OF STERLING 1259 - 1973



Recently we have seen some dramatic evidence of these costs. The price statistics for July and August suggest that while the freeze rules were widely honored this was considerably less true than during the first freeze in 1971. Some of the distortions and disincentives that inevitably accompany controls are evident in the beef shortages of August and the closed gasoline stations this week. While problems of this type have thus far not become dominant, we must realize that more and more will develop as time passes. The longer direct price and wage controls are with us, the more difficulties and unhappiness they will produce.

Looking ahead

No economic forecaster is very sure about inflation prospects for 1974. The forecasting fraternity has always had great respect for the difficulties of making projections on prices, but the universally bad forecasting experience at the outset of 1973 has made everybody more cautious than ever.

The key questions about the price outlook are easy to identify. First, will demands for food and industrial materials continue to outrun supplies, or will production catch up during 1974? Second, will the commodity inflation of 1973 touch off an acceleration of wage gains?

The pessimists among us tend to answer both of these questions unfavorably. They see gains in employee compensation rising to, say, 8 percent, which after deduction of the 3-percent productivity trend translates into an underlying 5-percent rate of inflation. To this they add something more for continued commodity inflation, and thus end up with a 6- or 7-percent rise in prices for the year.

The optimists, on the other hand, suggest that labor market conditions are not generally tight enough to support an acceleration of wage gains. If this is coupled with a belief that the rapid commodity inflation is behind us, it would produce a forecast of about 4 percent inflation for 1974. An extreme optimist might conclude, as The London Economist did 2 weeks ago, that commodity prices, especially for industrial materials, will be coming down substantially within a few months—a conclusion that would lead to something less than a 4-percent inflation forecast for 1974. But an economist with an outlook that happy is almost as hard to find as a passenger pigeon.

It takes a brave or a foolish person to forecast inflation. I prefer not to qualify on either count. In terms of the two scenarios outlined above, however, my own views are much more in line with the optimists.

Exhibit 16.—Excerpts from remarks by Assistant Secretary Fiedler, November 27, 1973, before the 1973 annual meeting of the American Life Insurance Association, Washington, D.C., on the energy shortage

The energy crisis has cast a forebodingly dark cloud over the economic outlook for 1974. Many people have concluded that this dark cloud harbors a deadly tornado that will send the economy into a tailspin.

A more reasonable conclusion, it seems to me, is that the dark cloud contains some rain and even some bolts of lightning but nothing that would be destructive of the basic prosperity that Americans are enjoying.

How much difficulty the energy shortage will cause for the economy in the months ahead, I do not know. Furthermore, I do not know anybody who does know—which means that almost everybody is highly uncertain about the prospective economic situation. Inevitably, this widespread uncertainty produces two things: a lot of hogwash and a lot of unsupported despair.

While I cannot assess for you precisely how much economic difficulty the energy crisis will produce, it is worthwhile to review some of the essential elements of the present situation. While some of these points are fairly simple and straightforward, it is clear that they are not widely understood.

The most basic fact is that the United States, at least through the winter of 1974 and quite possibly longer, will experience a substantial shortage of energy because of the Arab oil boycott. During the first quarter of 1974, the shortfall adds up to about 17 percent of total petroleum demand, or about 8 percent of the total demand for energy.

We can, however, make up a good bit of that shortage through simple conservation measures such as reduced automobile speeds, reduced thermostat settings, and fewer airline flights. I am impressed with the potential that exists throughout our society for energy conservation. I disclaim any expertise in this area, but the multitude of energy-saving possibilities that have come to light in the past month is striking. A noteworthy example is the amount of energy savings achieved by residents of the Northwest in response to the shortage of hydroelectric power since early this summer.

Also, we can offset some of the shortage through substitution: by taking oil from the reserve supplies at Elk Hills, Calif., by reopening the Santa Barbara Channel to drilling, by higher production in certain other domestic oilfields, and by using coal in place of oil and natural gas in some applications.

Nevertheless, the energy shortage is larger than we can overcome by simple and relatively painless methods of voluntary conservation and by substitution. The President and the Congress working together have already set in motion a number of major steps to deal with the situation. Other decisive actions to allocate the available supplies of energy will be forthcoming.

In the last analysis, the need to allocate the limited supply can be met in only three ways: through the price system, through taxes on energy use, and/or through direct rationing. Each of these methods has serious disadvantages. Large price increases are politically unacceptable in themselves, as are the windfall profits that they generate. Large increases in energy-use taxes are as politically unacceptable as large increases in prices. Also, if tax increases take the profit out of the energy scarcity, they simultaneously remove the incentive for developing additional sources of energy. Finally, direct rationing by coupons, while it may be politically acceptable by giving the appearance of equal treatment to all (a terribly deceptive myth, since we are all very unequal in our need for energy), is in fact the most undesirable solution. Aside from the nightmarish bureaucratic superstructure and the black marketeering that would develop, direct rationing precludes the incentives for new production and the reduction in demand that higher prices would create.

Thus, each of the basic methods of allocating energy is unacceptable for important reasons. Yet there is no alternative to using some method of allocation. There *is* a shortage. We cannot burn what we do not have.

Perhaps, when the decisions are made, we will have to use all three of these methods. In my view, direct rationing should be the last resort. Nevertheless, if we do turn to direct rationing, I think we should not use it alone. We should not forfeit the contribution that the price system and use taxes can make in helping us adjust to the sudden shortage of energy.

This is especially true in view of the longrun need to adjust to permanently higher energy prices. Even if the absolute shortage should prove to be short-lived, energy prices are almost sure to be much higher for the indefinite future. We will have to adjust our way of life to this new fact, and sooner or later the relative price of energy will have to be part of that adjustment.

Another major question in allocating the energy shortage is what sectors of the economy should absorb the reduction in supply. As we see it, the best choice is for most of the reduction to come out of the household sector through a reduction in low-priority heating, lighting, and automobile use, rather than to take it out of the business sector.

Loud objections have already been raised to this course of action. Such a policy, we hear, would take the shortage out of the "hides" of the people. The people are not responsible for the shortage, and should not be made to bear the burden of it. Instead, the burden should fall on business.

To me this is a pointless way of looking at the problem. What is represented by the term "business" is simply a way of organizing the economic activity of people. If the shortage is allocated primarily to the business sector, then the shortage falls on the people in the form of fewer jobs, fewer goods and services available for purchase, and reduced wages. If, on the other hand, the household sector absorbs most of the shortage, then it falls on the people in the form of lower thermostat settings, less recreational driving, and the like. Thus the energy shortage has to be absorbed by the American people in one way or another, and there will be fewer difficulties for people if we reduce unnecessary energy use in households, as opposed to creating unemployment and reducing consumption and income.

This does not mean cold houses and immobilized automobiles; the shortage is not that great. Nor does it exempt the business sector from the consequences of the shortage; they too will have to conserve on heating and other energy uses. But on balance, the American people will be better served if the energy shortage is absorbed primarily by lower thermostats and less use of the private automobile. In that way, the overall impact on our economy and on the people will be minimized.

In summary, I think it is clear that the energy shortage will have a noticeable impact on the economy. The dark cloud that I mentioned earlier does contain more difficulties for us than just a brief rain shower. The energy shortage is of substantial dimensions and dealing with it will require substantial adjustments.

But it is equally clear, I think, that the energy shortage will not produce a major recession. We have the ability and the flexibility to cope with this problem successfully. If we absorb the bulk of the shortage through conservation measures in all parts of society and especially through reductions in unnecessary heating, lighting, and automobile use, then the impact on production and employment will be limited in size and scope.

Exhibit 17.—Statement of Assistant Secretary Fiedler, February 1, 1974, before the Senate Committee on Interior and Insular Affairs, concerning price controls on crude oil

The price of crude oil is an important issue for the American people in 1974. The ongoing rise in oil prices, which stems directly from the embargo imposed in the Middle East late last year, is having a significant effect on our society and our economy. The oil price rise adds directly to the already virulent inflationary pressures we face. The shortage and the price rise are both factors that are now depressing economic activity. They mark the beginning of a pervasive, long-term change in the lifestyle of nearly every American. And they entail a small but noticeable drop in our standard of living.

This last point is worth pursuing for a moment, because it is not widely understood. There is considerable confusion about cause and effect. When prices rise because of a shortage of something as important to our consumption patterns as oil has been—a commodity for which no *immediate* substitute is available—then our total consumption, i.e., our standard of living, declines. There is no escaping that shortrun result; the existence of a shortage insures it. Under these circumstances, whatever happens to prices—whether they rise as they would normally do in a free market or whether that rise is suppressed by controls—the shortage remains. And it is the reduced supply, not the price increase, that causes the decline in the standard of living. This happened with food in 1973 and is happening now with oil.

But the fact that the shortage is primary and the price rise secondary does not mean that what happens to prices is unimportant. Quite the contrary; what we have here is the classic economic role of prices as the signal flags that communicate the need for fundamental changes. The rise in crude oil prices tells producers of the need to develop new sources of supply and tells consumers that their use of oil must be curbed.

These signals are of vital importance. Pervasive changes in the consumption patterns of the American people must take place over the next few years. As Bill Simon likes to put it, "We have been energy wastrels and we must change our ways."

I know of no effective mechanism for accomplishing this longrun adjustment except by permitting oil prices to rise substantially above their preembargo levels. This proposition is frequently, though by no means universally, recognized. It is carefully recognized in the bill we are considering today, S. 2885, which would require the President to set ceiling prices on crude oil and products that would avoid price increases ". . . in excess of those that would have the function and effect of increasing long-run supply, diminishing long-run demand, and allocating said products to their most valuable uses." It is also recognized in the present price controls—for example, in the ruling that exempted "new" domestic crude oil from regulation.

But while there is some agreement on the need for oil prices to move over time to their longrun equilibrium levels, there is not likely to be agreement on what that level is, on how long the "long run" is, or on whether it is useful for the price of oil to rise above its longrun equilibrium level in the meantime. On the first two of those questions, the Department of the Treasury has made estimates—$7 per barrel for the longrun price with the long run arriving in 3 years—as a part of its proposal for an emergency windfall profits tax. Although precise estimates were required for the tax proposal, there can be no confidence in the exactness that is implied by those numbers. One only has to recall the long history of premature forecasts of the arrival of competitive atomic power to appreciate the uncertainty that surrounds estimates of longrun equilibrium prices.

The question of near-term prices is, perhaps, even more difficult. The basic issue here is whether or not prices of crude oil should be rolled back from present levels. In general, I think that question should be answered in the negative.

There is a major question about the effectiveness of price controls on commodities for which a large share of our supply is imported. If a price ceiling is placed on foreign oil at a level below what the seller can obtain outside the United States, no foreign oil will be available to us. If, however, domestic prices are controlled while import prices are not (which is in part the current situation), and if foreign sellers charge all that the market can bear, U.S. importers will be willing to pay as high a price for foreign oil as is necessary to meet consumer demand in this country at the average price for domestic and foreign crude. This means that placing a lid on domestic oil prices will have the effect of raising the price paid for foreign oil. In fact, the more we suppress the price of domestic oil, the more that will raise the price of foreign oil, without significantly changing the average price. Thus, controlling the price of domestic oil does not—as soon as this process works its way through the system—reduce the average price of oil products paid by consumers. Before long, the American consumer ends up paying as high a price for petroleum products as he would have paid if no price controls existed. By the same token, the windfall profits that accrue to owners of crude oil will not be eliminated. The only effect of the price controls under these circumstances is to shift the windfalls from owners of domestic oil to owners of foreign oil.

Beyond that fundamental question, I think a major rollback of prices on all crude oil would have several important and undesirable consequences. First, there is a need to allocate efficiently the smaller supplies of petroleum that are available. Energy consumption is being reduced in a variety of ways: through voluntary conservation, through mandatory allocation, and through higher prices. The rise in oil prices in recent months is, I think, as important for this purpose as was the rise last summer in soybean prices and the rise in lumber prices during 1972 and early 1973. In both of those cases, the rise in prices helped to allocate the reduced supply. In both cases, prices today are well below their earlier levels.

We should also recognize that the voluntary and mandatory allocation methods we are using are not without cost. For example, when trucks are slowed to 55 miles per hour, the efficiency of our transportation system is reduced, which means that we will have to pay more for all goods transported by truck. Waiting in line at service stations is not only a "pain in the neck" but is also inefficient. Allocation through higher prices avoids these costs.

Second, a rollback of crude oil prices would reduce current domestic production. In view of the imbalance between supply and demand and the widespread expectation that prices are going still higher here at home, and in view of the prices currently being paid abroad for crude oil, a price rollback would dissuade producers from expanding supply from presently available sources and, in many cases, would bring about a reduction in current production, i.e., in anticipation of selling the crude at significantly higher prices at a later time.

Third, a major rollback would discourage the longrun investment commitments for exploration and development of new domestic energy sources that must be made now to move toward self-sufficiency by 1980. This point is recognized in S. 2885 by the provision for excepting new supply subject to a detailed projection of the investment expected to result from such an exception.

Fourth, there is a further cost to price controls in the form of various economic distortions that inevitably develop when prices are suppressed. If we have learned one thing during the 30 months of the economic stabilization program, it is that price and wage controls can cause serious economic difficulties. Buyers and sellers, both, can always find ways to circumvent the regulations in ways that often involve substantial waste and inefficiency for the industry and the economy.

How these economic distortions might develop in the petroleum industry is difficult to anticipate. I have already mentioned the probability that current production of crude oil would be held back. In addition, perhaps "new products" (minor modifications to existing products) could be invented, as was done in the lumber industry in 1972. Perhaps something akin to "custom slaughtering" could be devised, as was done by the supermarket chains working in conjunction with the packinghouses when the meat price ceilings were in effect last spring and summer. Perhaps sellers would require "tie-in" sales in which buyers who want products that are in short supply must also take a specified quantity of a product they may not want; this practice has been reported in the steel and petrochemical industries. Perhaps the oil companies would stop making certain low-profit product lines in order to concentrate production on—and in a sense force their customers to purchase—products that carry a larger markup, as the steel, paper, and apparel industries, among others, have reportedly done. Finally, although this has not become a significant problem during the stabilization program, there is no doubt that some black-market transactions would take place at above-ceiling prices.

These distortions have never become so widespread as to pervade the entire business structure or to threaten the basic efficiency of our economic system. Where they have become important is in industries experiencing an excess of demand over supply, just as the petroleum industry is now experiencing except more intensely. These problems developed under the same kind of cost-passthrough limitations on price increases that are embodied in S. 2885. Furthermore, if economic distortions were to become endemic in the oil industry—and I want to emphasize that there are no present signs that this is happening—public confidence in the ability of the Government to manage the energy crisis in a reasonably equitable manner would be eroded and the voluntary conservation efforts that have accomplished so much to date could be seriously jeopardized.

In summary, therefore, I believe first that there is a serious question about the efficacy of price controls on a commodity that is imported as heavily as oil is. Second, I believe there are serious difficulties involved in rolling back oil prices from present levels to below an estimate of what long-term equilibrium prices might be. The necessary economic adjustments that must take place in both the near term and the long run would be inhibited and a variety of dislocations would be likely to develop in the industry.

There is no doubt, however, that present price levels will create windfall profits for a number of companies. This problem should be dealt with forthrightly. The best way to do so, I feel, is through a tax on crude oil prices, as proposed in our emergency windfall profits tax.

Exhibit 18.—Remarks of Assistant Secretary Fiedler, March 27, 1974, before the Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pa., on "Price Changes, Inflation and Controls"

Inflation continues to be the serious problem it has been for the past 8 years. In fact, unless the energy-induced economic setback we are undergoing at present turns out to be considerably more protracted and more widespread than now seems likely, inflation has no serious rival as the Nation's No. 1 economic problem. Furthermore, an end to the problem is not near at hand. Although later this year the inflation rate should subside considerably from its breathtaking pace of 1973 and early 1974, it seems clear that the general price level will continue to climb at an unsatisfactory rate for some time ahead.

Despite the seriousness of the inflation problem, it is not well understood. I am particularly conscious, for example, of the widespread confusion between inflation, which reflects the general level of prices, and price changes for individual commodities. Most people will point to the price increases for fuel oil or rice or scrap steel, each of which has doubled in the past year, and call it inflation. But that is no more valid than pointing to soybeans or cowhides or pocket calculators, all of which can be bought today for less than last year, and calling it deflation.

Thus it is important to remember that inflation is what happens to all prices, on the average. When we forget that point, we forget the fundamental nature of inflation—and then we start to think about corrective policies that tend to treat the symptoms of the problem rather than its basic cause. Similarly, to measure inflation, we should use an index of the general level of prices: the Consumer Price Index or the "GNP deflator" or, ideally, a still more comprehensive index that would include prices of assets as well as prices of goods and services currently produced.

A large part of the confusion between changes in the general price level and individual price changes reflects a lack of understanding of the crucial role that prices play in regulating production and consumption. Only rarely in the public discussion of economic questions is there a recognition of the fact that a relationship exists between price and quantity—indeed, two relationships, that between price and the quantity supplied by producers and that between price and the quantity demanded by consumers.

The most recent instance of this confusion was in the debate over rolling back prices of crude oil and its products. In that brouhaha, there was explicit recognition (though it was far from complete) of the need for prices to rise to provide long-term production incentives. But there was almost no recognition of the role that price increases have in the process of allocating the reduced supply, i.e., the impact of petroleum price increases on the demand by consumers. Similarly, very few people appeared to be aware of the limitations of price controls, especially the economic distortions they produce in the presence of excess demand pressures. Indeed, hardly anyone in the debate gave adequate weight to the costs of nonprice rationing—either the resources that would have to be employed to operate a coupon rationing system, or the inefficiencies of long lines at gas stations, closing the stations on Sundays, 55 mph speed limits, et cetera.

Shortages and the standard of living

Another point of confusion here is over the cause and effect in the relationship between inflation and the standard of living. Changes in the standard of living are normally measured by changes in real income per capita, which in turn are often calculated by taking the percentage change in nominal average incomes (sometimes wages) and dividing out the percentage change in prices. When prices go up faster than nominal incomes, the standard of living is seen to have declined.

This happened in the United States, according to some measures, over the course of 1973, and it is an event of sufficient rarity in our recent experience that it created considerable consternation. In the search for scapegoats and remedies that followed, two kinds of prescriptions were commonly put forth to prevent or offset the impact on the standard of living: (1) suppress the price increases by means of direct controls and (2) raise wages faster.

It is plain, I think, that neither of those prescriptions could have prevented the poor 1973 record on the growth of per capita real income. What caused the sag in the standard of living was the reduced supplies of food and fuel. When a shortage develops of something as important to our consumption patterns as food and oil—commodities for which no immediate substitute is available—then our total consumption, i.e., our standard of living, declines. There is no escaping that shortrun result; the existence of the shortages insures it. The rise in prices of those commodities is a *measure* of the reductions in supply, but it is the *shortages*, and not the price increases, that cause the standard of living to decline. If we were to suppress the price increases by controls, that would not solve the problem; the shortages would still be there. And the same thing is true of the proposal to raise wages more rapidly; the shortages would still be there and all we would have achieved would be more inflation.

Long run versus short run

While there is a major distinction to be drawn between individual price changes and general inflation, it is nevertheless true that price increases for individual commodities or groups of commodities can have an independent impact for a time on the overall rate of inflation. In the long run, inflation is dominantly a monetary phenomenon. Over the course of, say, a decade, the strategic variable determining the rate of inflation is the supply of money, or better perhaps, the relationship between the increase in the quantity of money and the increase in the quantity of output.

Another way to consider the concept of inflation as a monetary phenomenon is to think of a rise in the general price level in its reverse form, i.e., as a decline in the value of money. They are two sides of the same coin. And the way that the value of money declines is through a rise in its quantity relative to the volume of output.

In the long run, we have inflation when, and only when, the dollar depreciates in value because the quantity of money is increased too fast. And who controls the money supply? The Government, of course, through its budget and monetary policies. In the end, it is Government fiscal and monetary policies that are the basic cause of inflation and that can be the basic cure for inflation.

As I have repeatedly stressed, the monetary nature of inflation is a longrun phenomenon. However, in the short run (as long as a couple of years, as I see it—and it is here, incidentally, where I may part company with some of my monetarist friends) there are many other types of developments that have a very substantial and independent effect on the rate of inflation.

This is what happened in the United States last year, and not just once, but four times. First, world cereal production fell 3½ percent in 1972, compared to an average increase of 3½ percent in earlier years—a shortfall of devastating proportions in this most necessary of all the necessities of life. The full price impact did not hit us until 1973, however, because we held most of the world's reserve inventories of grains. Second, prices of industrial raw materials skyrocketed in 1973, because virtually every industrialized nation experienced rapid economic expansion and world economic growth was thus faster than at any time since the mid-1950's. Third, the price pressures on both food and industrial materials hit us with special force in 1973 because of the devaluation of the dollar. The United States suddenly became a much more attractive source of supply in world markets because of the change in exchange rates. The food and material price pressures were, therefore, felt here with great intensity. Fourth, late in the year, some of the Persian Gulf nations used their monopoly power to triple the price of crude oil.

Together, these four special factors produced an enormous surge of commodity inflation in the United States, a surge that came on top of a more general, but not so rampant, "underlying" (or monetary) rate of inflation. During the course of 1973, consumer prices went up about 9 percent. This was split, more or less evenly, between the commodity and the underlying inflation. This split can be measured in a couple of ways. For example, the Consumer Price Index can be disaggregated to separate out the food and energy components from other prices. Alternatively, the calculation can be made by looking at wage increases—the other side of the inflationary coin—and subtracting out the 3-percent longrun growth trend for productivity. Both of these calculations show an underlying inflation of about 4–5 percent for 1973.

Near-term prospects

The commodity price explosion is continuing into early 1974. Looking ahead, however, I see no sound basis for projecting prices of foods and fuel and raw materials to continue their rapid climb indefinitely. There is a long history of wide swings in commodity prices, i.e., major movements in both directions. But even without assuming a drop in commodity prices, just the end of the upsurge would have the effect of cutting our rate of inflation approximately in half.

With food and oil production rising, and with world economic growth slowing sharply in 1974, we are looking for this kind of a change in the inflation picture. When? Well, there are a few scattered signs in the commodity markets already—e.g., wheat has fallen almost 25 percent in the past 5 weeks, and the Dow Jones Commodity Index is down about 10 percent since late February. But those signs are not at all conclusive yet, and there is too much volatility in these markets to be sure that the corner has been turned. However, a deceleration should come sometime during 1974.

There is, however, one serious threat to this scenario: the threat of a wage explosion. If wage settlements were suddenly to accelerate, to surge upward by 4 or 5 percentage points in a vain attempt to catch up with the commodity inflation, and if Government policies were to accommodate this wage explosion, then the subsidence of inflation we are postulating would not take place. We would, in effect, build the commodity inflation into the underlying rate of inflation.

At present there are no signs that a wage explosion is developing. There has been an upcreep in wage settlements from last year to this year, but it has been modest in size. With unemployment above 5 percent, it is doubtful that the labor market is tight enough to support an upsurge in the pattern of wage settlements.

Consequently, there seems to be a fairly good chance to get the rate of inflation down to a less breathtaking rate than the two-digit increases we've been experiencing lately. But while any and all improvement is most welcome, the thought of a continuing inflation of 5 percent or so is hardly a happy thought. It raises the question of what else can be done, other than following responsible fiscal and monetary policies and waiting impatiently for the commodity inflation to run its course.

Supply management

One thing that can and is being done is "supply management." Economists often refer to fiscal and monetary policies as "demand management"; supply management is the same kind of thing on the other side of the economic equation. Supply management does not carry the same kind of weight that demand management does, but it is a useful set of policies and can make a meaningful contribution in pursuit of our economic goals.

The most dramatic example of what has been achieved in supply management is the complete turnaround in Government farm policies. As recently as 2 years ago, the basic thrust of our farm policies was to restrict farm output for the purpose of maintaining farm prices and thereby farm income. Today, virtually all the stops are out on crop production. Planting restrictions on all the major crops have been completely removed. And the results reflect the change in policy. We had a big increase in crop production in 1973, and given normal weather, we'll have an even larger increase this year.

Supply management policies were also used in other sectors of the economy where price pressures were strong. For example, the Forest Service increased the timber cut from public lands, and surplus metals and other commodities were sold from Government stockpiles. A long and rather interesting list of the supply-increasing actions taken during 1973 is contained in the Annual Report of the Council of Economic Advisers (p. 95).

Direct price and wage controls

Another anti-inflation policy that has been used—and for which a certain amount of enchantment still exists in the United States—is direct price and wage controls. Throughout history, the idea that direct controls could hold prices stable has had repeated trials. Let me refer you to just two of them: the Roman Emperor Diocletian's *Edictum de pretiis* in A.D. 301, and the various attempts to control prices that the American colonies made during the Revolutionary War period. I have attached an excerpt from Will Durant's "Caesar and Christ," which summarizes the early Roman effort quite succinctly.

> In 301 Diocletian and his colleagues issued an *Edictum de pretiis*, dictating maximum legal prices or wages for all important articles or services in the Empire. Its preamble attacks monopolists who, in an "economy of scarcity," had kept goods from the market to raise prices: . . . .
>
> The Edict was until our time the most famous example of an attempt to replace economic laws by governmental decrees. Its failure was rapid and complete. Tradesmen concealed their commodities, scarcities became more acute than before, Diocletian himself was accused of conniving at a rise in prices, riots occurred, and the Edict had to be relaxed to restore production and distribution. It was finally revoked by Constantine.
>
> The weakness of this managed economy lay in its administrative cost. The required bureaucracy was so extensive that Lactantius, doubtless with political license, estimated it at half the population. The bureaucrats found their task too great for human integrity, their surveillance too sporadic for the evasive ingenuity of men. To support the bureaucracy, the court, the army, the building program, and the dole, taxation rose to unprecedented peaks of ubiquitous continuity.
>
> —From *Caesar and Christ*, by Will Durant, New York, Simon and Shuster, 1944, pp. 642–643.

For an account of the controls applied during the American Revolution, I recommend to you an article by Jonathan Grossman in the September 1973 Monthly Labor Review, which is quite interesting and even entertaining.

The modern American experience with controls has been in place now for over 2½ years. As I see it, there is little evidence to suggest that we have had any more success in stabilizing prices than all of the earlier tries in history.

In making an assessment of the economic stabilization program, there are three or four basic questions that should be answered: Were the controls effective? Did they do any harm to the economy? What was the compliance record of the controls? Were they fair?

In my view, the controls had only a small impact on the average changes in prices and wages since August 1971. Unquestionably, there was some impact on both prices and wages during the first year or so of the stabilization program. I would say, without trying to be too precise, that the country went from about a 5-percent inflation rate in the year and a half before controls to a roughly 3½-

percent inflation rate in 1972. What part of that decline can be attributed to controls is conjectural, because the controls interacted with other economic conditions in a way that does not allow their separate effects to be disentangled. However, I would certainly not assign to the controls a dominant part of that decline.

In effect, the controls program was a successful use of shock therapy. In August of 1971, conditions were right for some kind of economic policy action beyond what was already in place. The country was ready for it. In addition, economic conditions were right for a decline of inflation on both the price and wage sides. First, the excess demand of 1968 had been eliminated and, in fact, some economic slack had existed for a period of time. Second, the economic dislocations and imbalances that had developed during the previous 5 years of inflation—especially on the wage side, where the relative economic positions of different groups had gotten far out of line earlier—were mostly restored. All it took was something to set the economic forces in motion. That something was the controls program, which acted as a catalyst and touched off the deceleration of inflation.

To my mind, then, it was the imposition of controls, more than the particular design of the program or the particular policies that were applied within the program, that accounted for the contribution that the stabilization program made to the diminution of inflation. It was the fact of controls, more than their form, that did the job.

Beyond that first result, say beyond the first year, I do not see that the stabilization program has, on balance, had any significant favorable impact on the rate of inflation. Yes, prices have been suppressed in some industries, and here and there wages too, but generally this represented a delaying action, and not really enough of a delay to have more than a marginal and transitory impact on the overall rate of inflation.

There are, however, two notable exceptions to my general assessment that the controls made only a modest contribution to the inflation fight in 1972 and rather little since then. Those exceptions are construction and health. The Construction Industry Stabilization Committee, which predates the stabilization program, played the crucial role in reducing wage settlements from around 18 percent in 1970 to about 5 percent recently. In the health industry, there is also reason to believe that the controls played an instrumental role in the marked slowdown of the cost trend in medical services.

Where prices of various products were suppressed, the controls did produce some economic distortions. The most famous—or infamous—example (because it was documented on television news) is the destruction of baby chickens at the beginning of the second price freeze in June 1973, when poultry prices were frozen at a level that did not provide for a profit in raising chickens, due to the high cost of feed.

There were also a number of situations in which the controls program produced a two-tier price system in which domestic prices were held well below the world price. This created an incentive for businessmen to sell their products abroad, despite the need for those products here. Fertilizer, copper scrap, and petrochemicals were the most prominent examples, but there were many others. On occasion, as a way of getting around the regulations, those products would be exported and immediately reimported, and sometimes those exports and reimports took place only on paper with the goods never leaving the country.

Also, on occasion, "new products"—really only minor modifications to existing products—were invented to get around the controls, as was done in the lumber industry in 1972. When the meat price ceilings were in effect, last spring and summer, the supermarket chains, working in conjunction with the packinghouses, devised the procedure of "custom slaughtering," in which the normal business practice in that industry was changed by having the supermarkets buy the beef cattle directly and contract with the packinghouse to do the slaughtering on a fee basis. Also, some sellers required "tie-in" sales, in which buyers who wanted products that were in short supply were also required to take a specified quantity of a product they did not want; this practice was reported in the steel and petrochemical industries last year.

In some industries, companies stopped making certain low-profit product lines in order to concentrate production on—and in a sense force their customers to purchase—products that carry a larger markup. Finally, although this did not become a significant problem during the stabilization program, there is no doubt that some black-market transactions took place above ceiling prices. The basic lesson is that buyers and sellers can always find ways to circumvent the regulations, often to the detriment of the efficiency of the industry.

Although these distortions were fairly widespread, I do not see evidence to suggest that they were serious from an economy-wide point of view. While every businessman has his own favorite story of the problems that the controls caused, there probably is no basis for believing that the basic efficiency of the economy suffered because of it. The Cost of Living Council was generally alert to these problems and took action to relieve them before they became serious. Furthermore, it is difficult to look at the ongoing boom in plant and equipment spending and conclude that the controls program inhibited the investment plans of businessmen. So, overall, while the distortions were widespread, they do not appear to have been deeply harmful to the economy.

As a footnote, it should be added that with few possible exceptions the controls program was not the *cause* of the many shortages in the economy over the past year and a half. Those shortages were basically the result of the boom in business activity, both here and abroad. The controls program exacerbated those shortages in a number of cases, but it was not the initial cause of them.

A couple of the basic lessons that price theory teaches us about direct controls on prices have been confirmed by our recent experience. One lesson is that the longer controls last, the more economic distortions they cause. The other lesson is that the problems become more numerous and more difficult as we close in on full-capacity operations. A telling piece of evidence is the fact that the major distortions that occurred in 1972 were reported from the lumber industry, which was operating at full capacity before the rest of the economy got close to full utilization of its resources.

On the question of compliance with the rules and regulations of the stabilization program, my strong impression from general observation is that compliance with the controls program has been rather good throughout. I suspect that the number of violations has increased over time as the regulations became more complex, but I doubt that this deterioration was sufficient to alter my basic conclusion.

It is crucial in a program like this to have the voluntary compliance of the private sector. Partly because all sectors of the economy looked favorably on the program at its inception, I think we have had this compliance. Without it, it would not be possible to manage a program of price and wage controls. Legally, I suspect it is impossible to write regulations that would be sufficiently tight and sufficiently comprehensive to avoid major loopholes. There was always a feeling at the Price Commission, for example, that any corporation willing to invest the time and effort would be able to find a way around their regulations. From the administrative standpoint, it would not be possible to hire an army of enforcers large enough to keep under control a private sector that did not want to be controlled. The key to compliance, then, is a program that is widely accepted throughout the society, which will therefore accord to it a high measure of voluntary compliance.

For this purpose, too, it is important that the controls be perceived as fair and equitable. That issue has been raised frequently during the past 2½ years, almost always on the question of whether the controls are fair between labor and business. Charges were repeatedly made by both sides that the regulations and the administration of the program were giving an unfair advantage to the other side.

This question is almost unanswerable. There are no simple criteria to determine what a fair distribution of the total economic pie should be between labor and capital. The controls program was designed to be neutral on this question; that is, it was designed to provide the same kind of result that would have taken place in the absence of controls.

As best I can judge, the program worked out in about the expected fashion. There is normally a large cyclical swing in the relative shares of labor and capital, with the labor share rising during recessions and falling during expansions. The change that has taken place over the past 2½ years, which has been a period of strong economic expansion, has been a rise in capital share that would seem to be in line with what would have taken place in the absence of controls.

There are, however, many other ways in which a controls program can be inequitable. Since the rules called for different administrative treatment for large versus small companies, there was a major opportunity for inequity between them. The same is true for workers who are organized, versus those who are not.

On the one hand, although generally they were both subject to the same basic rules, the large companies and the large labor groups were subject to more stringent administrative control. Notably, they were subject to delays in the effective dates that their price and wage increases became effective. Thus, there is some validity to the charge that the program discriminated against large units. On the other hand, the large units probably have an advantage—an economy of scale—when it comes to interpreting all the details of the regulations to their own advantage. Many nuances of the regulations probably became known only to the large firms and the large bargaining units.

Even more important, there is a great possibility in any controls program for interpersonal and intercompany inequities. Inevitably, the same rules will be interpreted differently by different persons within the controls program, or even by the same person at different times. The possibilities for some unfairness to enter are endless; I have no doubt that some did. How extensive these inequities were, however, I have no way of guessing.

In sum, I think it is clear that I have a rather jaundiced view about the efficacy of direct price and wage controls. Like most things, they are neither as beneficial as their proponents suggest, nor as evil as their enemies would have you believe. But in the end, because they don't really contribute in a significant way to the fight against inflation, I do not think they should be used as a general anti-inflation tool.

My attitude about the controls is summed up in a poem that was brought to my attention by Jack Grayson: "The Engineer" by A. A. Milne. For your amusement, I have attached it to this statement.

"The Engineer"

Let it rain!
Who cares?
I've a train
upstairs,
with a brake
which I make
from a string
sorta thing,
which works
in jerks,
'cause it drops
in the spring,
which stops
with the string,
and the wheels
all stick
so quick
that it feels
like a thing
that you make
with a brake,
not string . . . .

So that's what I make,
when the day is all wet.
It's a good sort of brake
but it hasn't worked yet.
—A. A. MILNE.

Summing up

In the end, then, we are left with the budget and monetary policy, and not a whole lot more. Supply management can help a bit in coping with commodity shortages, but only a bit, and for the most part we simply need the patience to await development of a viable balance between demand and supply. Most of the time that involves a longer wait than the Nation seems willing to abide. Similarly, direct price and wage controls, while they may be useful in limited areas under special circumstances, provide no realistic hope of contributing to the anti-inflation fight for the economy as a whole.

The burden of controlling inflation thus remains with fiscal and monetary policies. At the same time, the burden of maximizing and stabilizing production and employment also rests on the budget and on monetary policy. And in the short run there is an excruciatingly difficult trade-off between the two policy objectives.

Over the past decade, we have taken the greater risks on the side of inflation. Consequently, we have and are paying the price of that risk-taking in the form of an ongoing rate of inflation that is now built into our economy at around 5 percent per year. In reaching that position, I doubt that we made a good bargain with ourselves.

But what of the next bargain, that which we will make with ourselves for the next half-decade or decade? The correct policy is easy to identify: We simply maintain the right balance between the employment risks and the inflation risks.

I hardly need to mention that achieving that policy is not as simple a matter as identifying it. The social and political pressures to give the full-employment goal precedence over the inflation goal seem almost as strong as ever. We seem to have a penchant for more monetary expansion and more Federal spending (or less taxing) than I would regard as justified on economic policy grounds.

For these reasons, and because our present inflation has become so deeply embedded, rooting it out of our economic system will require a very long and arduous effort. But the pursuit of price stability is a goal of great importance. It is a goal that is worth staying the long course to achieve.

Exhibit 19.—Statement by General Counsel Schmults, May 14, 1974, before the Subcommittee on Business, Commerce, and Taxation of the House Committee on the District of Columbia, on H.R. 7414, to establish a District of Columbia Development Bank

Mr. Chairman, I am pleased to be here today to express the administration's strong support of legislation to establish a District of Columbia Development Bank.

H.R. 7414 incorporates legislation proposed by the administration in the 92d Congress. The proposal submitted to the 93d Congress by the Secretary of the Treasury on September 6, 1973, differs from H.R. 7414 only in that language limiting the bank's assistance solely to projects located within the District of Columbia has been strengthened.

The purpose of this legislation is to establish a new financial institution—the D.C. Development Bank—as a vehicle to mobilize private resources to deal with problems of economic development in the District of Columbia.

The bill would create a private corporation to be known as the District of Columbia Development Bank. The bank would have a board of directors consisting of 11 persons: the Commissioner of the District of Columbia, the Chairman of the District of Columbia Council, three officers or employees of the United States or the District government designated by the President, and six directors elected by the shareholders of the bank. One of the elected members would be selected by the board to serve as its chairman. The board would appoint a president of the bank to serve as the bank's chief executive officer.

The bank would assist economic development projects embracing housing, commerce, and industry by mobilizing the capital and expertise of the private sector, serving as a catalyst and lender of last resort.

The bank would be authorized to provide technical assistance and training in the preparation and implementation of comprehensive development programs, including formulation of specific project proposals.

The bank would be authorized to purchase debt obligations and equity instruments, and to guarantee debt obligations. Loans and equity investments would be made in accordance with sound and prudent development banking principles, and would be made with the objective of assuring a reasonable return on the invested funds, consistent with the achievement of economic development goals.

In carrying out its functions the bank could assist projects which are innovative, which involve special risk situations, which are of unusually large scale, or which would be feasible only if financed collectively or fully committed in advance. All projects receiving bank assistance would be designed to enhance existing or future development plans of the District and to increase the employment and economic opportunities of District residents.

The bank would use its capital and borrowed funds as startup or seed money for development projects, and the bank would seek to induce other lenders and investors to provide the bulk of the financing necessary for such projects.

The bank's function, thus, would be to assume the lead role in putting the project "package" together, through assistance in obtaining any necessary Federal and District approvals, infrastructure grants, or other public investment. Then the bank would help arrange for private financing and equity, and, if necessary, provide bank loan funds and equity participation.

The bank would not be in competition with private bankers, developers, businessmen, government agencies, or community groups. Rather, it would be a logical and necessary complement to their efforts in obtaining the necessary approvals and financing for projects of difficult implementation.

The bank would be expected to obtain its capital entirely from private sources through the sale of common stock and issuance of debt obligations. At least one-half of the amount of common stock subscriptions would be paid into the bank at the time of subscriptions with the remainder to be paid within 2 years after subscription. The bank would be authorized to borrow up to 15 times the bank's capital and surplus.

In addition, the bank would be authorized to issue obligations to the Treasury after the bank has at least $2 million in paid-in capital. This source would be used only as standby support for the bank's borrowings in the public market. The Treasury's purchases could not exceed the lesser of twice the amount of the bank's capital, or $10 million. The interest rate on these issues to the Treasury would be based on the rates paid by the bank on its other obligations, but not less than the average yield on outstanding Treasury obligations of comparable maturity.

The bank would be allowed to pay its stockholders dividends in years that it has net earnings and has no outstanding borrowings from the Treasury. The bank's earnings and dividends and interest on the bank's obligations would be fully subject to local and Federal taxes.

Frequently in the past proposed solutions for the problems of community economic development were simply proposals to appropriate increasing amounts of Federal funds. Too little thought and attention was given to the availability of private financial resources or to the capacity of the intended recipients of the proposed Federal financial assistance to match such assistance with community development needs. The proposed D.C. Development Bank would seek to fill the gap between needs and available resources, to catalyze local efforts, and to guide local project sponsors through the steps necessary for successful project completion.

The role of the Federal Government in the bank would be limited. No appropriations of Federal funds would be authorized. Yet, the Federal charter provided by the enactment of the bill would be indicative of general Federal support, and the modest standby authority for the bank to borrow from Treasury would help to provide the assurances necessary for the bank to issue its own obligations in the market. The provision for possible designation of Federal officers or employees to the board of directors of the bank would provide a formal means for the bank to maintain direct contact with the Federal Government.

In conclusion, Mr. Chairman, the D.C. Development Bank is sound and constructive legislation from the standpoint of both the Federal Government and the District of Columbia. This legislation will fill a serious gap in our present delivery system and will further our common efforts to promote the economic development of the District of Columbia.

Exhibit 20.—Response of Secretary Simon, June 11, 1974, at the House Banking and Currency Subcommittee hearing when asked about U.S. policy with respect to domestic gold ownership

Today U.S. producers of gold are free to sell it at world market prices. U.S. citizens are free to buy gold for industrial, artistic, and numismatic collection purposes. For this last purpose, coin collecting, it is now possible to buy gold in the United States in coin form at less than 10 percent above its bullion value in the world market.

At the appropriate time I believe that the existing restrictions on U.S. citizens' investing in gold in bullion form should be removed. Restrictions on the freedom of U.S. citizens are repugnant to me and should be retained only with clear justification. The principal original justification for the restrictions in the thirties obviously is not our current problem. And permission for U.S. citizens to invest in gold could actually have an appreciable anti-inflationary impact in the United States if the change were introduced at a time when it did not contribute to market uncertainty and if the United States sold gold from Government-held stocks to meet some or all of the new investment demand.

I do not believe, on the other hand, that it would be wise for the Congress to legislate removal of the existing gold restrictions on a certain date. Such legislated inflexibility could hamper the U.S. representatives in negotiations which are underway right now. Such legislation could force removal of the restrictions at a time when the action might happen to exacerbate a disturbed situation either in U.S. markets or in international markets in which we have a vital interest.

The President already has the authority [Public Law 93–110, September 21, 1973] to remove the gold restrictions when the step can be taken without serious disturbance. My own desire is that I will be able to recommend that he do so—and that he will—before the end of this year unless there are new damaging developments in economic affairs that indicate that the step should not be taken. I urge you to have sufficient faith to leave to us the choice of a date when the change can be made without potential damage to our economy.

Exhibit 21.—Remarks of Assistant Secretary Fiedler, June 11, 1974, before the 11th Annual Forecasting Conference, cosponsored by the Chicago Chapter of the American Statistical Association, the College of Business Administration, University of Illinois, and the Chicago Association of Commerce and Industry, Chicago, Ill., entitled "On Practicing That Old-Time Religion"

Economic policy has a theme song! The song is "That Old-Time Religion." It's not new and it's not especially melodious but, considering what an arcane subject economic policy is, the lyrics are surprisingly descriptive.

In the fight against inflation, the administration has emphasized farm and energy policies that maximize food and fuel production. It has called for greater fiscal discipline in the form of a move toward a balanced budget. It has applauded the monetary restraint of the Federal Reserve. And it has cited the need for more saving and investment. Certainly all of these reflect the image of "that old-time religion." The administration has also forsworn gimmicks such as wage and price controls that attack the symptoms of inflation but not its fundamental causes, and this too is consistent with "that old-time religion." Thus, the theme song seems quite appropriate to current economic policy.

However, as with any simple theme or slogan—no matter how useful they may be in terms of instant public recognition—there is the danger of oversimplification. For example, "that old-time religion" might be misinterpreted to mean that the administration will pursue the orthodoxy of a balanced budget with an unswerving theological devotion that ignores the level and direction of unemployment.

That is, of course, not the case. Our purpose is, rather, to bring to economic policy a better balance between the often conflicting goals of full employment and price stability. Through the postwar period, policy has almost always been tilted toward maximizing employment, while paying much less attention to the inflationary consequences. "That old-time religion" will not abandon the employment goal, but will raise the anti-inflation priority to the same level as full employment.

What is full employment?

But to state that both goals should have high priority does not solve the central economic issue of how the trade-off between them should be reached. Some years ago, many students of economic policy thought that 4 percent unemployment would provide a fair compromise, i.e., reasonably full employment and reasonable price stability.

More recently, serious questions have been raised about the 4-percent unemployment goal. A variety of changes have taken place in the economy, most of which appear to have raised the unemployment rate that would be associated with an acceptable unemployment-inflation trade-off.

Perhaps the most important of these changes is the shift in the composition of the labor force, which now includes many more persons—teenagers and working wives, especially—whose attachment to the work force is less permanent and who move in and out of jobs more frequently than other workers. This compositional shift has raised the average level of unemployment associated with a given balance of economic demand and capacity.

Other changes in the economy, such as the improved protection that workers now have against the hardships of unemployment, have moved in the same direction. However, there are also changes that work the opposite way; for example, the occupational and industrial composition of the economy have both moved in the direction of lower unemployment.

Where all this comes out is not easy to say. Some analysts have used calculations based on the shift in the age-sex distribution of the labor force to suggest that the "acceptable" unemployment rate is now about three-quarters of a percentage point higher than in the middle 1950's; if 4 percent was appropriate then, 4¾ percent is appropriate now. My own view is that such calculations are dubious, essentially because they account for changes in only two of the many dimensions of our economy. The most we can say, I believe, is that stimulative fiscal and monetary policies should not endeavor to reduce the unemployment rate as far as was once thought appropriate.

The different facets of full employment

There is, however, a still more fundamental issue that should be raised about the trade-off between unemployment and inflation. That issue is whether we are even asking the right question. In part, it seems to me the answer is that we are not.

Basically, we think about economic policy as follows: When the economy is weak and inflation is subdued, fiscal and monetary stimulus should be used to increase demand until the economy reaches the limits of its capacity to produce at reasonably stable prices. Our basic error in this is that we almost always think of the limits of economic capacity in terms of the unemployment rate.

But surely this is too narrow a view of the cyclical limits of economic expansion. One only has to review our postwar history to see that our economic booms did not come to an end solely because we reached the limits of expansion in the labor markets, but for a variety of different reasons. The 1973 expansion, for example, was choked off by a severe shortage of processing capacity for basic materials. In 1966, on the other hand, it was a severe congestion in the financial markets that brought the expansion to a temporary halt; we reached what might be called "financial full employment."

In 1968–69, when the unemployment rate declined to below 3½ percent, it seems clear that the economy reached its cyclical limits primarily in terms of full employment in the labor markets. For the 1955–57 boom, the evidence is mixed: the labor market was obviously under pressure during that period, but so was our capital stock, probably more in the advanced-processing industries than in basic materials.

I do not mean to suggest that there is no correlation between these several facets of capacity utilization; quite clearly there is. When we move toward full employment in terms of the labor market we also move toward full utilization of our capital stock, and of our financial markets. But the evidence is strong, I think, that there is much less than perfect harmony among these measures. At one time, one will be the critical variable in defining the limits of cyclical expansion toward which economic policy should be focused. At another time, it is a different facet of capacity that will set the limits.

This whole matter is further complicated by two additional factors. First, how far the economy can expand toward its productive limits depends in part on the nature of the expansion, especially on how fast and how well balanced it is. The 1973 expansion, for example, probably took place at a greater speed than would have been ideal. Second, the cyclical limits on expansion are determined in part by what is happening to the economies of other nations. In 1973, all of the industrialized countries experienced boom conditions simultaneously—in particular, the shortage of processing capacity for basic materials was critical throughout the world—and this fact placed additional limits on the ability of the American economy to expand.

I do not know any simple or accurate or satisfactory way to measure where the limits of capacity are under each of these different facets of capacity utilization. I can only suggest that we should take an eclectic and cautious approach to setting economic policy. Furthermore, I feel strongly that it is a serious mistake to focus so narrowly on the unemployment factor alone, as we so often do when thinking about this trade-off.

Certainly it is misleading to measure, as we do now, the potential output of our economy ("Potential GNP"—see pages 61 and 95 of Business Conditions Digest) only in terms of employment and labor productivity. That sort of measurement suggests that we are satisfied with a "production function" for our economy based solely on labor input. The postwar experience, however, tells us how important it is to take explicit account of a variety of other inputs, including our capital stock, materials, and perhaps even financial resources.

What course for economic policy?

The present economic situation provides a particularly telling illustration of how an exclusive focus on unemployment can be highly misleading in formulating policy. The recent weakness in economic activity has raised the unemployment rate from around 4¾ percent last summer to about 5¼ percent now. This has suggested to some that fiscal and monetary policy should be eased to stimulate the economy. Indeed, the Senate is now debating a bill to cut taxes by some $5–7 billion for just that purpose.

The rise in unemployment, however, is not a valid signal that economic demand is now falling short of our capacity to produce. What happened is that the energy crisis, which was the prime source of the economic weakness, brought about a simultaneous decline in both demand and capacity. The concern about energy availability and the rise in prices sharply reduced consumer demand for large cars, recreational vehicles, tourism, utility services, and the like. Simultaneously, the same forces neutralized some of the available capacity to produce these goods and services—at least temporarily. For example, some of our capacity to produce large cars is of no value, as long as consumers are not in the mood to buy them.

Meanwhile, in the rest of the economy—outside of those areas directly impacted by the energy crisis, and except also for housing—activity has continued at virtually flatout, full capacity. Most basic materials have remained in short supply and unfilled order backlogs have continued to grow. Both are clear indications that excess demand is still the predominant problem of businessmen—not a lack of sales or new orders. Similarly, inflationary pressures have continued to be very heavy.

Accordingly, a tax cut is not the right medicine for the present situation. Putting more money into the hands of consumers would do little to increase production or employment. All it would do is add to the already strong pressures on prices.

For the moment, then, there is not much that can be done through general fiscal and monetary policies to reduce unemployment. The half-point rise in the unemployment rate—with perhaps a bit more to come—is an unwelcome but unavoidable result of the energy crisis.

As we look ahead to the later months of 1974 and to 1975, the most reasonable expectations are that the economy and employment will experience renewed growth. We are hopeful that this growth will be vigorous enough to cut gradually into the unemployment rate. We are hopeful also that this growth will be sufficiently well balanced so that the oncoming increases in productive capacity will accommodate the expansion, while also permitting a gradual subsidence of inflationary pressures.

But this is a complex, unwieldy and amorphous process, fraught with risk. Difficulties abound. As mentioned earlier, there are no fully satisfactory measures for the different facets of capacity utilization to indicate where the limits of cyclical expansion are likely to be met. Neither is there any useful way to know just how, in line with the precepts of "that old-time religion," the proper balance is to be struck between the employment and inflation goals. Policymakers deserve our sympathy.

On the other hand, nobody ever promised them a rose garden!

Exhibit 22.—Article by Assistant Secretary Fiedler, printed in The Washington Post, June 18, 1974, entitled "Holding the Line on Economic Policy"

The central issue of economic policy today is whether taxes should be cut to encourage consumer spending and thereby stimulate the economy. The idea appears to have started with the energy-induced setback in economic activity and rise in unemployment that took place around the turn of the year.

But the key fact about the weakness in the economy is that it has been focused so narrowly. The automobile industry has been affected, as have utilities and tourism and other fuel-related activities. Homebuilding has also been slower and, in response, the President has taken action to provide more funds for the mortgage markets.

Outside of those areas, however, signs of weakness have been scarce. The major problems faced by businessmen these days are not a lack of sales or new orders, but rather materials shortages and delivery delays.

Some proponents of a tax cut have argued that the full-capacity/shortage situation is behind us and that demand is now falling below our capacity to produce. They point to the Federal Reserve Board's index of capacity utilization for production of major materials, which declined by a couple of percentage points from the fourth quarter to the first quarter.

It is important, however, to analyze the composition of that index. Specifically, it includes petroleum refining and raw steel, both of which declined for special reasons. For the other major materials, the indications are that all production facilities continue to operate at virtually full capacity. So the drop in the utilization index cannot be taken as a sign that demand weakness has replaced materials shortages as the basic condition of the economy.

There are several additional pieces of evidence to support this view. One is the unfilled order backlogs of durable goods manufacturers, which continue to rise.

Another piece of evidence is the behavior of industrial purchasing agents, who are still making commitments farther ahead than they have done at any time in the past 20 years.

In this situation, if taxes were cut, the extra spending that would be generated would not do much to boost production and employment. Instead, it would only mean more dollars chasing goods that are already in limited supply—which would simply mean more inflation.

And it is the problem of inflation that poses the other crucial question about the tax-cut proposal. I would argue that we are likely to see some decline in the inflation rate during the course of 1974 with or without a tax cut, as the worst of the food, fuel, and decontrol price pressures gets behind us.

But this should not suggest that a reduction in taxes poses no inflationary threat. Even under favorable assumptions, prices are likely to be rising at something like a 6-percent rate at yearend. That is an unacceptably high rate of inflation and, if taxes are cut now, even that degree of improvement would be seriously jeopardized.

Although unemployment may rise somewhat further in the months immediately ahead—for which the unemployment compensation system should be strengthened as the President has recommended—the economy should resume its normal condition of growth in the second half of the year.

Accordingly, the risk of serious and prolonged unemployment is small but the risk of accelerating the underlying rate of inflation is substantial.

It is difficult to argue that in and of itself a cut of $5 billion—in the context of a $305 billion budget and a $1,400 billion economy—would add substantially to inflation.

But the $5 billion should not be viewed in and of itself. It should also be considered in terms of the signals it would give off. If taxes were cut, Government departments and Congress would no longer feel as constrained as before to hold expenditures within limits.

Most important, the private sector of the economy, which now generally believes that the $11 billion budget deficit is already too inflationary, would get the clear signal that the Federal Government is basically unconcerned about prices.

In the past, the Government's economic policy decisions in both the legislative and executive branches have almost always added too much budgetary stimulus to the economy, while ignoring the inflationary consequences.

To come down on that side of the equation again, i.e., to cut taxes now, would be a bad mistake.

Exhibit 23.—Statement by Secretary Simon, June 26, 1974, before the Subcommittee on Economic Growth of the Joint Economic Committee, concerning long-term economic growth

I am pleased to be here today to discuss long-term economic growth in the United States. Issues and policies that focus on the long term are rarely given sufficient attention in the Government—preoccupied as we so often are with the 2- or 4- or 6-year election cycle—so I am especially glad to have this opportunity to share with you some of my views on the development of our economy over the next decade or so.

I do not believe it would be useful to present to you a detailed set of numbers on our expectations for the distant future. We do not believe that projections of long-term growth can be made with pinpoint precision. And to attempt to do so in detail by industry would only be an exercise in futility because growth occurs through innovations that give us the new products and new methods that make for better use of economic resources. The specific direction of these rapid and pervasive changes that take place continually in the technology and structure of our basically private-decision economy can never be predicted in detail. As to the broad path of future growth, however, we think the economic projections for 1985 prepared recently by the Bureau of Labor Statistics—and which have been presented to you earlier in these hearings—seem reasonable.

The critical factor in these projections is the assumption about future productivity growth. The processes by which we use our economic resources more and more efficiently are complex. It is clear, however, that investment is a factor of major importance. It is no accident that economies, such as Japan or Germany, that devote a large proportion of their output to capital formation have also experienced rapid gains in output per man-hour. By contrast, the United States has put a rather small share of its output into new plant and equipment—among industrialized nations the smallest share—and has had a much slower rate of productivity advance. The close relationship between investment and productivity growth is clearly illustrated in the table below.

International comparisons of investment and productivity, 1960 through 1973

	Average private investment as percent of GNP (excluding defense expenditures)	Average annual growth in productivity (output per man-hour)
	Percent	*Percent*
United States	18.0	3.3
Canada	22.4	4.3
Japan	33.4	10.7
France	24.9	5.9
Germany	26.2	5.8
Italy	21.4	6.2
United Kingdom	18.9	4.2
OECD less United States*	24.2	6.3
All OECD*	20.5	4.8

*Figures in the first column for the OECD country groups represent private investment as a percent of GNP including defense expenditures and cover the 1960–1971 period only. Broader and more current data are not available for some OECD countries other than those listed above. Similarly, productivity data for some OECD countries other than those listed above are available only through 1972.

Sources: OECD and national sources; Bureau of Labor Statistics.

Not all investment is in machines and mortar. We also invest in a more productive work force through the accumulation of more "human capital"—more education and better health. Indeed, the economic value of this intangible capital formation may approach the value of our stock of capital more conventionally defined.

At present, both these forms of investment are on the rise. Plant and equipment spending has been increasing since 1971, though not with as much vigor in real terms as the economy needs. Similarly, each year's new entrants into the labor force have more education and are generally better equipped than their predecessors for the technological challenges of the future. On the assumption that these trends can be extended and strengthened, I believe it is reasonable to anticipate that productivity will continue to grow at a rate comparable to the historical pattern—which may not be enough, however, given the pervasive demands of our society for additional economic output.

The massive challenge of the future

In recent years, however, there have been several developments in our economy that call for an increase in capital formation at a considerably higher rate than previously. What I have in mind are the enormous capital requirements to improve our housing stock, to provide new systems of urban transportation, to rebuild some of our basic industries, to clean up the environment, and especially to achieve the goals of Project Independence. These programs will require an immense volume of new investment capital, far above and beyond the normal requirements to replace aging schools, industrial plants, and all of the other conventional needs.

The President has directed the Council of Economic Advisers to undertake a study of future requirements for capital. Without trying to anticipate the outcome of that study, I would like to discuss briefly my own view, which is that the economy will need to allocate a larger proportion of its output to capital formation than the historical average.

If this capital formation is to occur, it must be financed. And on the saving side of this issue, there are two crucial problems. One is inflation, to which I shall return in a moment. The other is profits, which perform a crucial function in this economic system of ours and which are a major source of invested capital. Thus profits provide both the incentive and the wherewithal for new investment.

Unfortunately, however, profits are frequently not seen for what they are, either in size or in function. Many Americans look upon profits as an unnecessary evil, and most Americans see profits as being of much greater size than they are. Surveys show that the typical American thinks profits account for about 28 percent of the sales dollar. If that were so, our capital needs could be taken care of quite easily. The fact is, however, that profits take less than 5 cents out of each dollar of sales. In some key industries, like food retailing, profit margins are as low as 1 percent of sales. Thus profits alone do not begin to cover all of the capital requirements of industry, although they are the source of a substantial part of it. And profits will have to grow substantially to make their contribution to the investment needs of future years.

The important link between profits and capital formation is clearly illustrated by the critical problems of electric utilities. Because the rate-making authorities have been slow to react to skyrocketing fuel, capital and construction costs, the after-tax earnings and cash flow of the industry have been squeezed at a time when its capital requirements are growing rapidly. From 1964 to 1973, the industry's cash flow increased from $3.3 billion to $5.9 billion, while capital outlays climbed from $5.5 billion to $18.7 billion. As these figures strongly suggest, the low rates of profitability allowed by the rate-making authorities are threatening to destroy the industry's ability to raise the enormous volume of capital it needs to do its job. The electric utilities require higher earnings to assure that adequate electric power is available for all of us in the future.

In 1973, after-tax profits of all corporations increased some $15 billion, or 27 percent. On the surface, that would appear to be a sparkling performance. However, a significant part of that increase in profits represented gains in inventory valuation attributable only to inflation. That important element of profits did not represent an increased flow of cash available for new investment. In fact, undistributed corporate profits—after taking account of the inventory valuation factor—increased only $3 billion last year. Furthermore, at $25.4 billion for 1973, they were still below the 1966 level of $27.4 billion. Moreover, if the inflation of the intervening period is taken into account, the 1973 total is only two-thirds of the 1966 level.

My concern about profits, then, has two aspects. One is the critical importance, in terms of the ability of this country to meet its future investment needs, that profits grow at a much more healthy pace over the coming years than they have in the past 7 years. My other worry here is that the negative attitudes about profits held by many Americans might become a part of public policy. We must avoid legislation and regulation that is punitive of profits honestly earned. The result could only be that capital formation would be inhibited, and the real purchasing power of wage earners would rise more slowly.

The second part of my concern about the ability of the economy to meet the savings and investment demands of the future is the enormity of the capital requirements we face. Estimates of the needs of the energy industry alone for new capital over the next decade range from three-quarters to 1 trillion dollars. Pollution control might require another $100 billion. The cost of rebuilding basic industries such as steel, paper, cement, fertilizer, zinc, and others, where investment has languished over the past decade, could add up to another $50 billion or more. Urban transportation, housing, and other major programs could take scores of billions of additional capital. And all of these needs come on top of conventional requirements. There can be no doubt that in total our future capital needs represent an enormous challenge.

Meeting the challenge

To meet this challenge, we have two major alternatives. The first is that our increased investment requirements for energy and other new programs could take place at the expense of conventional capital formation. We could, in other words, divert some of our present investment to these new requirements. This would have serious consequences. Some of our cherished present goals, such as rebuilding the housing stock, would then suffer. And generally this would also result in a slower rate of overall economic growth, at least as conventionally measured.

The second alternative is to increase the share of total economic output going into investment. That is, we could displace some of our present consumption or Government expenditure in favor of the added investment. Although it is always uncomfortable to suggest that growth in consumer spending and worthwhile Government programs must be held in check, we feel very strongly that this is the preferred alternative.

Our major task, then, is how we can achieve this shift from consumer and Government expenditures into investment. How can we assure that our predominantly private-decision economy will have the necessary incentives to increase the volume of saving and investment?

By far the most important thing that Government can do to encourage saving and investment is to bring inflation under control. This is one of the major reasons why I have stated so many times that inflation is our number one economic problem.

Inflation is the bitter enemy of the saving-investment process. What reason is there for any worker to put aside part of his paycheck every week if his return on that saving is no higher—or even less—than the rate of inflation? And inflation distorts investment incentives with funds going into speculative ventures rather than basic capital formation.

If, however, we can demonstrate convincingly to the private sector that the Government means business about inflation, that we are pursuing the policies that will permit a gradual subsidence of the pace at which prices and wages are rising, then the incentives will be restored for orderly and vigorous saving and investment. Under those circumstances, we will be able to effect the substantial shift from consumption and Government spending to investment that will be needed to provide for the massive capital requirements of the coming decade.

There is another important Government policy that we should consider, one that would make more savings available for private investment, and at the same time reduce inflation, and that is to alter our budget policy. Our general goal is to achieve a balanced budget when the economy is prosperous. If, however, we shift that goal to a significant surplus—and assuming also that we don't offset that move by expanding the volume of loan guarantees or other off-budget gimmicks—it would do two important things. It would enlarge the flow of savings available to the private sector, because the Government would reduce its claims on the capital markets. It would no longer preempt a large share of the funds needed by homebuilders and other users of financial capital who are now elbowed out of the market by the Government's superior credit rating. At the same time, a budget surplus would provide the necessary fiscal restraint that is so critical to control of inflation.

Another idea that deserves study is the proposal to provide new investment incentives for industry through the tax system. As you know, this approach always raises difficult questions, especially if the proposal is limited to specific industries. I do not have any recommendations for you at this time, but I did want to inform you that we are currently taking a careful look at the idea.

Summing up

I am convinced that the American economic system is capable of making this major shift in output from consumption and government to investment. I think it can be done and that it is important that we do so. We should reverse our long-held policies that penalize saving and encourage consumption. Our tax system should be reexamined to this end. Federal Reserve Regulation Q, which limits interest paid on savings accounts, should be revised at the earliest opportunity. Control of inflation is of crucial importance. Another basic requirement is that we permit the normal incentives of the price system to operate freely. We must not impose artificial Government constraints, as for example we have done for so many years, and are still doing, in regulating the price of natural gas.

It is instructive to recall what took place after August 1971, when we removed the artificial constraint of fixed exchange rates that had produced an overvalued dollar for so many years. In the free market, the dollar moved to new, more competitive levels and our trade balance, which had been in a nosedive for many years, returned to surplus. Similarly, when we changed agricultural policy 180 degrees to permit maximum production, American farmers responded to the incentives of the marketplace by planting large amounts of additional acreage, which are now producing record harvests, the prospect of which has brought grain prices down. These are just two examples of what the marketplace, given reasonable freedom and time, can achieve in overcoming serious economic problems. Let us make sure that we remember this lesson in meeting the challenges of the future.

Exhibit 24.—Other Treasury testimony published in hearings before congressional committees

Secretary Shultz

Statement on the Federal budget, before the House Committee on Appropriations, February 20, 1974.

Statement on the Federal budget, before the Senate Committee on Appropriations, February 27, 1974.

Statement on the Treasury budget, before the House Subcommittee on Appropriations, April 11, 1974.

Deputy Secretary Simon

Statement on current monetary and financial conditions, before the House Committee on Banking and Currency, September 17, 1973.

Statement of the Treasury's recommendations for change in the financial system, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, November 6, 1973.

Secretary Simon

Statement on the Treasury budget, before the Senate Subcommittee on Appropriations, May 30, 1974.

Under Secretary for Monetary Affairs Volcker

Statement setting forth Treasury views on H.R. 11221, which would increase the present $20,000 ceiling on Federal deposit insurance and provide full insurance of public deposits, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, March 19, 1974.

Federal Debt Management

Exhibit 25.—Statement of Fiscal Assistant Secretary Carlock, October 2, 1973, before the House Banking and Currency Committee, on H.R. 10265, extending the authority of the Federal Reserve banks to purchase U.S. obligations directly from the Treasury

I am happy to have the opportunity to appear in support of section 2 of H.R. 10265. That section would extend until June 30, 1974, the existing authority of the Federal Reserve banks to purchase directly from the Treasury public debt obligations up to a limit of $5 billion outstanding at any one time. In the absence of action, this direct-purchase authority will expire at the end of this month.

The purpose of the direct-purchase authority is to assist in the efficient management of the public finances. On the basis of the record, I do not believe the legislation to extend the authority for a temporary period is controversial. The authority was first granted in its present form in 1942 for a temporary period, and it has been renewed for temporary periods on 17 separate occasions.

Since 1942 the authority has been used prudently, on only a limited number of occasions. Its value does not rest, however, on its frequent or extensive use. It rests, rather, on the fact that simply by being available a backstop is provided for all our Treasury cash and debt operations, permitting more economical management of our cash position and assuring our ability to provide needed funds almost instantaneously in the event of any kind of emergency.

Several points may be summarized to indicate why we feel that maintenance of this authority is essential. First, it provides us with the margin of safety, permitting us to let our cash balance fall to otherwise unacceptably low levels preceding periods of seasonally heavy revenues. This, in turn, results in balances that are not as high as they otherwise would be during the periods of flush revenues that follow, allowing the public debt to be kept to a minimum and thus saving interest costs to the Government.

Our recent experience illustrates the benefit of being able to operate in this way. In August, you will recall the money and capital markets were extremely sensitive to demands upon them. It was therefore necessary to keep Treasury borrowing in those markets to a rock-bottom minimum. We were able to do this because, if cash requirements exceeded our projections, we would have the direct-purchase authority to rely on. As it turned out, our cash requirements did slightly exceed our projections, and we used the direct-purchase authority on one day, August 15, in the amount of $351 million, and for 9 days between September 7 and 17 in a maximum amount of $485 million. If we had not had the authority, we would have had to borrow considerably more than this amount in the market—probably as much as $1.5 billion—in order to have a prudent margin, and we would be carrying that amount now in our cash balances which are already seasonally high because of the September cash collections.

In the second place, there is always the possibility that erratic swings in money market conditions or international flows of funds may produce changes of a character that rather suddenly reduce our borrowings from other sources. While we have never to my knowledge had to use the authority for this reason, the availability of direct access to Federal Reserve credit in such circumstances would permit us the flexibility required to draw on our cash and to arrange alternative financing plans.

Finally, the direct-purchase authority is available to provide an immediate source of funds for temporary financing should this be required by a national emergency on a broader scale. While it has never happened, and we hope it never will, a situation could be possible in which our financial markets would be disrupted at a time when large amounts of cash had to be raised to maintain governmental functions and meet the emergency. Consequently, the direct-purchase authority has for many years been a key element in all of Treasury's financial planning for a national emergency or a nuclear attack. This is a major reason why the authority should be continued for at least $5 billion, even though little more than a fifth of that amount has ever actually been used in the past.

I want to emphasize, consistently with these three points, that the direct-purchase authority is viewed by the Treasury as a temporary accommodation to be used only under unusual circumstances. The Treasury fully agrees with the general principle that its new securities should meet the test of the market. Nor should the direct-purchase authority be considered a means by which the Treasury may independently attempt to influence credit conditions by circumventing the authority of the Federal Reserve to engage in open market operations in Government securities. In that connection, it is important to emphasize that any direct recourse by the Treasury to Federal Reserve credit under this authority is subject to the discretion and control of the Federal Reserve itself.

This borrowing authority has never been abused. The accompanying table, providing details on the instances of actual use, shows that it has been used infrequently and only for limited periods. The borrowings are promptly shown on the daily Treasury statement and the weekly Federal Reserve statement, assuring the widespread publicity that is the best possible deterrent to abuse. The Federal Reserve also includes the information in its annual report to the Congress. And, of course, this borrowing, like any other Treasury borrowing, is subject to the debt limit.

As an essential backstop to our cash management and an insurance policy against financial emergency, this authority should be kept available in case of need.

Direct borrowing from Federal Reserve banks, 1942 to date

Calendar year	Days used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1942	19	$422	4	6
1943	48	1,320	4	28
1944	None			
1945	9	484	2	7
1946	None			
1947	None			
1948	None			
1949	2	220	1	2
1950	2	180	2	1
1951	4	320	2	2
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	None			
1956	None			
1957	None			
1958	2	207	1	2
1959	None			
1960	None			
1961	None			
1962	None			
1963	None			
1964	None			
1965	None			
1966	3	169	1	3
1967	7	153	3	
1968	8	596	3	6
1969	21	1,102	2	12
1970	None			
1971	9	610	1	9
1972	1	38	1	1
1973*	10	485	3	6

*Through Sept. 30, 1973.

Exhibit 26.—Statement of Secretary Shultz, October 18, 1973, before the House Ways and Means Committee, on extension of the debt limit

The temporary debt limit of $465 billion will expire on November 30 of this year. Without congressional action, therefore, the debt limit reverts to its permanent level of $400 billion on December 1. As we pointed out in our last appearance before this committee, and as table I attached indicates, the actual debt is expected to exceed the present temporary limit late in November, assuming a normal cash balance. Consequently, action to provide a new debt ceiling is required before the final week of November if we are to avoid temporary retirement of debt and abnormal pressures on our cash balance at that time. A new temporary ceiling will, in any event, be necessary by November 30 if we are to maintain our expenditure and financing operations.

In June, when looking forward to fiscal 1974 as a whole, we proposed that the debt limit be raised to $485 billion. That request was based on projections of a unified budget deficit in fiscal 1973 of $17.8 billion and a unified deficit of $2.7 billion for fiscal 1974. We now know that the actual deficit for fiscal 1973 was $14.3 billion. We also know that, with our revenues increasing both as a result of real growth and inflation, we have a reasonable chance for a balanced unified budget for fiscal 1974 at a level of expenditure of about $270 billion. (Tables II and III describe the changes in receipts and outlays since our January and June estimates.) Based on this later data, and the assumption of a balanced budget, a debt limit of $480 billion should be adequate for fiscal 1974.

In requesting that ceiling, I want to emphasize that a balanced budget is by no means assured. To achieve that goal, we will need to maintain both strong economic growth and the tightest kind of control on expenditures.

At this point, 8 months before the end of a fiscal year, any expenditure and revenue forecasts must imply a range of possibilities about the projection. I am particularly concerned that, without the most vigilant effort, expenditures could exceed the projection. Already, as the Director of the Office of Management and Budget will explain in greater detail (and as shown on table IV), certain congressional appropriations in excess of the President's budget and higher interest costs for the debt have forced us to estimate expenditures for fiscal 1974 more than $1 billion larger than our June projections.

I believe it is as evident to you as it is to me that strong pressures are evident for still greater spending. They should be resisted—but they can successfully be resisted only by the strongest cooperative efforts of the Congress and the administration. My sense of the Congress is that that objective is widely shared. In requesting a debt limit of $480 billion, I am counting on that effort and that cooperation in holding expenditures to the projected level and making the possibility of a balanced budget an operative reality.

As you know, changes in the public debt are related more directly to the Federal funds than the unified budget. Table V shows the relationship between these budgetary concepts. As indicated, the Federal funds budget—which includes receipts and expenditures handled by the Government as "owner"—is projected to be in deficit by some $15.1 billion, despite the fact that tax and other receipts from the public are projected to exceed payments to the public by about $6 billion. The Federal funds budget is in deficit because some $21 billion will be paid from the Federal funds budget in interest and other payments to the trust funds. As a result of these intragovernmental payments, the trust funds will, in turn, have a large surplus, offsetting the Federal funds deficit. Since this trust fund surplus is invested in Government securities, the public debt will rise, despite the balance in the unified budget.

Table I translates this outlook into projected levels of the debt month-by-month, assuming a $6 billion cash balance and a $3 billion margin for contingencies. The peak monthend figure is $478 billion. I would note that the monthend indebtedness is sometimes exceeded within a month, making the $480 billion request appropriate.

Such a debt limit will, in fact, provide a tight ceiling. Obviously, the dollar flows in a $270 billion budget are considerably larger than ever before—double the total only 9 years ago. An error of only 1 percent in estimates on either revenues or expenditures would amount to $2.7 billion. As indicated in table VII, the assumption of a constant $6 billion cash balance and the traditional $3 billion margin for contingencies provides a margin for flexibility, in relative terms, little more than half of that provided in the early 1960's.

I would remind you, too, our forecasts depend to large measure on what the Congress actually votes to spend, as well as on the performance of the economy. The Congress has not yet completed final action on several appropriation bills, including the two largest—Defense and HEW. There are a number of other bills which must yet be considered and could have a major impact on 1974 spending.

Finally, in managing the debt, we are inevitably subject to uncertainties arising from potentially sharp fluctuations in our cash needs stemming from sudden changes or disturbances in domestic or international markets. Fortunately, such contingencies seldom arise. But in looking many months ahead, we do need a reasonable margin for operating flexibility for handling such unexpected needs if they do arise—even though the needs may be temporary and are not related to changes in the basic flow of receipts or expenditures.

While considering the debt limit, I also strongly urge the committee to initiate the legislative action necessary to permit us to pay a fair competitive rate on U.S. savings bonds. Currently, that rate, under interpretation of the present statute, is limited to 5½ percent. Events of the past 4 months indicate the rate should now be raised. I believe experience also shows the potential value of permitting the Treasury scope for more flexible administration of the rate in the future.

As you know, savings bonds have been a cornerstone of our debt management policy. Some $60 billion are outstanding, 24 percent of the total debt in the hands of the general public.

In order to maintain that program, and to do so in a manner fair to literally tens of millions of payroll savers and other buyers, holders of savings bonds must be assured that they will receive over time a reasonable rate of return. In order to be effective, changes in rates must be reasonably flexible and responsive to rates on other forms of savings, both up and down.

Once again, we are faced with a situation in which savings bonds rates may seriously lag other savings rates. Redemptions have begun to exceed new sales. Without a fair rate, this experience will deteriorate further. The result would not only be more borrowing in other forms, which is today relatively expensive but a setback to the momentum of the entire program and the image it holds in the public mind.

I believe the most straightforward approach for the Congress to this problem would be simply to remove the ceiling on savings bonds rates, to provide in this area the same flexibility that we have for marketable securities of equivalent maturity. The execution of debt management through the years by this and past administrations provides the best possible assurance that this authority would be used responsibly and fairly, in the interests of an effective savings bonds program and millions of our citizens who have entrusted their savings to us.

TABLE I.—*Public debt subject to limitation, fiscal year 1974, based on estimated budget outlays of $270 billion and receipts of $270 billion*

[In billions of dollars]

	Operating cash balance	Public debt subject to limitation	With $3 billion margin for contingencies
ACTUAL			
1973			
June 30	12.6	459.1	
July 31	7.2	460.0	
Aug. 31	3.1	462.8	
Sept. 30	8.3	462.4	
ESTIMATED			
Oct. 31	6.0	465	
Nov. 30	6.0	467	
Dec. 31	6.0	467	
1974			
Jan. 31	6.0	467	470
Feb. 28	6.0	471	474
Mar. 31	6.0	473	476
Apr. 30	6.0	468	471
May 31	6.0	475	478
June 30	6.0	468	471

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TABLE II.—*Comparison of fiscal year 1974 receipts as estimated in January 1973, May 1973, midsession review, and currently*

[In billions of dollars]

	January 1973 budget	Change from January 1973 budget	May 1, 1973, estimate	Change from May estimate	Mid-session review	Change from mid-session review	Current estimate
Individual income taxes	111.6	+3.7	115.3	+0.7	116.0	[2] +1.0	117.0
Corporation income taxes	37.0	+3.0	40.0	+1.5	41.5	+2.5	44.0
Employment taxes and contributions	67.9		67.9	+.5	68.4	[3] −.5	67.9
Unemployment insurance	6.3	−.1	6.2		6.2		6.2
Contributions for other insurance and retirement	4.0		4.0		4.0		4.0
Excise taxes	16.8		16.8		16.8		16.8
Estate and gift taxes	5.0	+.4	5.4		5.4	+.4	5.8
Customs duties	3.3	+.2	3.5		3.5		3.5
Miscellaneous receipts	4.1	−.2	3.9	[1] +.3	4.2	+.6	4.8
Total budget receipts	256.0	+7.0	263.0	+3.0	266.0	+4.0	270.0
Underlying income assumptions, calendar year 1973							
Gross national product	1,267		1,283		1,283		[4] 1,288
Personal income	1,018		1,030		1,030		[4] 1,033
Corporate profits before tax	108		116		116		[4] 129

[1] Includes +$0.2 billion for anticipated legislation required to write off liability carried on outstanding silver certificates.
[2] Includes +$0.3 billion for deferral to fiscal year 1975 of proposed legislation dealing with private school tuition credits and +$0.3 billion for substitution of pension reform legislation passed by the Senate for pension reform legislation proposed by the administration (primarily reflecting later effective dates).
[3] Consists of −$0.6 billion for dropping proposed legislation to increase taxes under the Railroad Retirement Tax Act and +$0.1 billion for enacted legislation to increase the social security tax base, effective Jan. 1, 1974.
[4] These incomes reflect, in part, historical revisions reported by the Department of Commerce in July 1973 and, therefore, are not directly comparable with prior income assumptions.

TABLE III.—*Fiscal year 1974 unified budget receipts, outlays, and surplus or deficit (−)*

[In billions of dollars]

	January 1973 estimate	Change from January 1973 estimate	May 1 estimate	Change from May estimate	Midsession review	Change from midsession review	Current estimate
Receipts	256.0	+7.0	263.0	+3.0	266.0	+4.0	270.0
Outlays	268.7		268.7	(*)	268.7	+1.3	270.0
Deficit (−)	−12.7	+7.0	−5.7	+3.0	−2.7	+2.7	

*Less than $50 million.

TABLE IV.—*Fiscal year 1974 outlays*

[In billions of dollars]

June 1 estimate		268.7
Completed congressional actions:		
Food stamp liberalization and repeal of wheat processing charges	1.1	
Veterans programs, including inactions on proposed savings	.4	
Advance of Federal pay raise	.3	
Social security and Medicaid benefits	.2	
Other completed actions	.4	
Subtotal completed congressional actions		2.4
Other changes:		
Interest paid on the debt	1.5	
Interest received and other offsets (i.e., payments to Government accounts)	−.7	
Farm price supports	−1.0	
Medicaid cost increases	.6	
Veterans readjustment benefits	.4	
Federal employee retirement funds	.3	
Federal Housing Administration fund	.3	
Outer Continental Shelf rents and royalties (offset against outlays)	−2.3	
Other changes (net)	−.2	
Subtotal, other changes		−1.1
Current estimate		270.

TABLE V.—*Change in budget receipts and outlays, by fund group*

[Fiscal years; in billions of dollars]

	1972 actual	1973 actual	1974 June estimate	1974 Current estimate	1974 Change
Receipts					
Federal funds	148.8	161.4	181.0	185.6	4.6
Trust funds	73.0	92.2	106.1	106.0	−.2
Intragovernmental transactions	−13.2	−21.3	−21.1	−21.6	−.5
Total	208.6	232.2	266.0	270.0	4.0
Outlays					
Federal funds	178.0	186.4	199.8	200.8	1.0
Trust funds	67.1	81.5	90.1	90.8	.7
Intragovernmental transactions	−13.2	−21.3	−21.1	−21.6	−.5
Total	231.9	246.5	268.7	270.0	1.2
Surplus, or deficit (−)					
Federal funds	−29.1	−25.0	−18.8	−15.1	3.6
Trust funds	5.9	10.7	16.1	15.2	−.9
Total	−23.2	−14.3	−2.7	(*)	2.7

*Less than $50 million.

TABLE VI.—*Change in budget surplus or deficit (−) by fund group*

[Fiscal years; in billions of dollars]

	1972 actual	1973 actual	1974 June estimate	1974 Current estimate	1974 Change
Federal funds:					
Transactions with the public	−16.2	−3.9	1.9	5.8	3.9
Transactions with trust funds	−12.9	−21.1	−20.7	−20.9	−.2
Total	−29.1	−25.0	−18.8	−15.1	3.6
Trust funds:					
Transactions with the public	−7.1	−10.4	−4.7	−5.8	−1.1
Transactions with Federal funds	12.9	21.1	20.7	20.9	.2
Total	5.9	10.7	16.1	15.2	−.9
Budget total:					
Federal funds	−29.1	−25.0	−18.8	−15.1	3.6
Trust funds	5.9	10.7	16.1	15.2	−.9
Total	−23.2	−14.3	−2.7	(*)	2.7

* Less than $50 million.

TABLE VII.—*Relation of margin for contingencies to unified budget outlays, fiscal years*

[Dollar amounts in billions]

Fiscal years	Outlays	$3 contingency margin as percent of outlays	Cash balance in debt limit forecast	Estimated cash balance plus margin for contingencies	Estimated cash balance and contingency margin as percent of outlays
1962	$106.8	2.8	$3.5	$6.5	6.1
1963	111.3	2.7	4.0	7.0	6.3
1964	118.6	2.5	4.0	7.0	5.9
1965	118.4	2.5	4.0	7.0	5.9
1966	134.7	2.2	4.0	7.0	5.2
1967	158.3	1.9	4.0	7.0	4.4
1968	178.8	1.7	4.0	7.0	3.9
1969	184.5	1.6	4.0	7.0	3.8
1970	196.6	1.5	6.0	9.0	4.6
1971	211.4	1.4	6.0	9.0	4.3
1972	231.9	1.3	6.0	9.0	3.7
1973	246.6	1.2	6.0	9.0	3.3
1974e	270.0	1.1	6.0	9.0	3.9

e Estimated.

Exhibit 27.—Press release, December 1, 1973, announcing Treasury actions with respect to debt limit delay

Secretary of the Treasury George P. Shultz expressed his deep concern today over the failure to achieve a timely extension of the temporary debt limit. As a result, the limit reverted last night to its permanent level of $400 billion, well below the actual outstanding debt of almost $465 billion.

The immediate practical effect is to prohibit new debt issues by the Treasury. If further prolonged, this situation will rapidly impair the ability of the Federal Government to maintain normal and necessary expenditures. However, all indebtedness incurred earlier under the authority provided by the temporary ceiling is unaffected.

Secretary Shultz announced a series of emergency steps by the Treasury to enable it to continue to finance Government operations without the issuance of new Treasury debt over the next few days.

- Notice has been sent to 30,000 issuing agents for series E and H savings bonds instructing them to suspend temporarily the sale of such bonds, pending extension of the temporary debt ceiling. A short delay in the issuance of these bonds will not cause loss to purchasers or disruption of payroll savings plans because all bonds issued in the month of December will earn interest from December 1, 1973. The text of that notice is set out in a separate release.
- A total of $3 billion of tax anticipation bills maturing in April and June of 1974 are scheduled for delivery on Monday, December 3, to successful bidders in an auction held on November 28. Bills in the same amount and the same maturity were issued by the Treasury on Friday, November 30, when the temporary ceiling was still in effect, to the Exchange Stabilization Fund, in exchange for an equivalent amount of special Treasury issues held by the Fund. If necessary, these bills will, in turn, be delivered on Monday, December 3, to the successful bidders in the November 28 auction, permitting the completion of the scheduled financing.
- Certain special Treasury securities held by foreign monetary authorities and scheduled to mature in coming days were advance refunded into new special issues on Friday, November 30, thus avoiding a potential cash drain.
- If an adequate temporary debt ceiling is not provided by Monday morning, the regular weekly auction of $4.3 billion of Treasury bills scheduled for Monday will be postponed. If feasible that auction will be held on Tuesday, December 4.
- In the absence of a Treasury bill auction, the Export-Import Bank will auction $1.8 billion of 3-month Export-Import Bank bills on Tuesday, December 4, for payment on Thursday, December 6. Proceeds of this sale will be used to pay outstanding Export-Import Bank indebtedness to the Treasury.
- Issuance of special obligations of the United States to Government trust funds (such as the social security trust funds) as a means of investing their receipts will be suspended until debt ceiling legislation is enacted.

Secretary Shultz added that lack of debt-limit legislation is also forcing the Treasury to intensively review prospective expenditures to determine the priorities among them.

These actions, in combination, will enable the Treasury to avoid issuing new debt while also assuring the flow of cash necessary to maintain Governmental operations for several days. Further delay in restoration of an adequate debt ceiling will require more drastic action, including delays in expenditures, to assure the continuing ability of the Treasury to meet maturing obligations and to maintain the credit of the United States unimpaired.

Exhibit 28.—Address by Secretary Shultz, January 29, 1974, at the United States Savings Bond Campaign luncheon, Chicago, Ill., on public policy for American capital markets

Today I am going to talk about the prosperity of this country, about the quality of our life, about energy, housing, the environment, spending on new plant and equipment, growth in our standard of living. These subjects, of concern to everyone, are bound together by the essential relationship each has to our capital markets.

In each of these areas, the demand for capital is growing and, taken together, the growth is of massive proportions. Private industry in the years ahead will need hundreds of billions of dollars to maintain and update its productive capacity, to develop the technologies to clean up our environment, to build new housing, and to apply the innovations that Project Independence will produce. These massive sums must be raised in our capital markets and, to a significant degree, in the form of equity capital.

American markets for equity capital get and deserve high marks for efficiency, both absolutely and relative to foreign markets. This efficiency has been promoted by the very large number of investors, the very large number of security analysts, the system of communication which rapidly and widely disseminates information, the system of regulation, and the market mechanism itself, through which prices respond quickly to the changes in views which are caused by new information. Taken together, these attributes lead to the liquidity so fundamental to effective capital markets.

Because the system has been efficient and equitable, it has attracted a flow of individual and institutional savings to American corporations. It has reduced the corporate cost of capital and provided investors with opportunities for profit.

In recent years, however, increasingly serious questions about the operation of these markets have been raised by people within the securities industry as well as those outside it. Widespread failure among brokerage firms, loss of public confidence in the market, the emergence of institutional investors with relatively large funds at their disposal, fragmentation of the marketplace, and numerous inefficiencies indicate that important changes are needed.

Changes in public as well as private policy are involved. But before discussing any operational issues, I would ask you to stand back for a moment with me and consider first some of the desirable characteristics of capital markets. The greater sense we can develop of the *objectives* of public policy, the better able we will be to determine what resolution of current issues will best serve the public interest.

We in the administration have been fortunate in our work on this subject to have had the benefit of studies and hearings conducted by committees of the Congress, the extensive materials developed by the SEC and the views of all segments of the industry, expressed to us in discussion as well as in written form. James Lorie, Professor in the Graduate School of Business at the University of Chicago, has coordinated our efforts and contributed his own vast knowledge of the industry and its problems.

Objectives of Public Policy

The general objective of public policy is to have markets that operate in a fair and efficient way. Fairness and efficiency lead to confidence on the part of the investing public that returns will be reasonably related to risks, that the institutions through which they deal have financial integrity, and that the individual investor is not at a serious disadvantage compared with the institutional investor. The principal and best method of ensuring this result is well known: competition. I turn now to four components of this general statement of objectives.

1. *Efficiency in determining prices of securities.*—One desirable characteristic of capital markets is efficiency in determining the prices of securities. "Efficiency" in this context means the ability of capital markets to function so that prices of securities react rapidly to new information. Such efficiency will produce prices that are appropriate in terms of current knowledge, and investors will be less likely to make unwise investments. A corollary is that investors will also be less likely to discover great bargains and thereby earn extraordinarily high rates of return. Efficiency makes it difficult to be either a fool or a genius in selecting securities, although some investors may enjoy very high rates of return through luck, daring, or ability and others may suffer greatly through a variety of mistakes or from assuming great risks.

Although efficiency eliminates much of the opportunity for extraordinary enrichment and may, therefore, seem undesirable to some, efficiency does insure that individual investors are not at a significant disadvantage compared to institutional investors in selecting securities and does increase the likelihood that savings will be channeled into investments in accordance with the risks and the promise of profit of the corporations whose securities are bought.

2. *Efficiency in transferring ownership of securities.*—It is desirable that the costs of transactions be low. The liquidity of capital markets and the prompt reaction of prices to new information are facilitated by efficiency in buying and selling securities. Transaction costs have three main components: the cost of brokerage, the cost of using the capital and bearing the risks which are necessary when market makers maintain inventories, and the cost of physically effecting transfers of ownership. This last cost is large—unnecessarily large.

Although there have been improvements in the machinery for making such transfers, the current system is far from optimum in terms of what existing technology and existing plans for its use would make possible. Efforts by the New York Stock Exchange, the regional exchanges, and the National Association of Security Dealers to develop new systems for clearing and settling transactions have progressed, but the efforts have been incomplete and have fallen far short of what is achievable.

3. *Efficiency in executing orders.*—The costs of transacting could also be reduced by cutting the costs of executing orders. Such costs have two components. The first is the cost of brokerage, which is the cost of doing the communicating, keeping the records, and doing the other things which a broker does in his role as financial agent for an investor. The second is the cost of maintaining inventory and bearing risks, costs which are incurred by dealers, including specialists on the organized exchanges.

In order for these costs to be low, it is essential that there be no artificial impediments preventing adjustment of the prices of services to the costs of performing them. Such impediments inevitably create inefficiencies. Obviously the issue of fixed versus competitive rates for brokerage services is relevant in pursuing the goal of efficiency in executing orders.

Competition among brokers and among dealers also fosters efficiency. In this area, as in the others, public policy should minimize restraints of trade and other obstacles to full and effective competition unless it can be shown that such competition is contrary to the public interest.

4. *Equity in the relationships between investors and their financial agents.*—Participation in the capital markets is encouraged by equitable relationships between investors and their financial agents. Equity has four dimensions: prices of services, provision of information, execution of orders, and the absence of conflicts of interest.

Equity requires that the prices of providing services be approximately proportional to the costs of providing them. This requirement will be met whenever there is effective competition.

Investors also need to feel that they are not discriminated against by brokers or other financial firms from whom they receive the information upon which their judgments about investments are based. "Discrimination" is hard to define in this context. Different investors desire different kinds of information. Equity does not require that all clients of a given firm receive identical information. The service provided by the firm may differ according to the desires of clients, and prices for different services can differ. Equity does require, however, that prices for identical services be identical.

Equitable treatment of investors in executing orders requires that they be executed in the order of receipt, taking account of prices which investors are willing to pay or accept. The problem arises in a particularly difficult form when large blocks are sold. The Securities and Exchange Commission has proposed that small investors be allowed to participate in block transactions when it would be to their advantage. On the exchanges, the specialist's book of limit orders makes this possible. It is more difficult in the third and fourth markets, but existing technology is adequate to solve this problem.

Perhaps the most serious problem in achieving equity has to do with conflicts of interest. American capital markets suffer far less than most foreign markets from such conflicts, and this condition has fostered widespread participation by the American public in the American markets and accounts in part for the great interest by foreigners in investments here. Although not all conflicts can ever be eliminated, public policy should have as a principal objective the elimination of conflicts of interest.

The Issues

My meetings in recent months with representatives of the securities industry and of those influencing and influenced by its operation show that many issues of broad significance are hotly debated. Of pivotal importance, however, is the structure envisaged for the "central market" and the rules for operating in it, including the question of "competitive rates." I will comment on what I believe to be critical questions about structure and rules. I will then conclude with remarks about a development that will improve the competitive position of our capital markets in relation to those in other countries.

The central market

Almost all—perhaps all—informed commentators on the evolution of our system of capital markets have agreed that we should move toward a single, central market. The term "central market" is ambiguous, however, and many of those who advocate it are advocating different things.

The Securities and Exchange Commission defines the central market as a system of communications by which the various elements of the marketplace are tied together for the purpose of exchanging information about bids and offers as well as the prices at which securities are bought and sold. Implicit in the existence of a complicated system of communications is a set of rules governing participants in their activities in the system and a means of ensuring compliance.

Development of the communications system itself poses many intricate and technical issues: the creation and nature of a consolidated tape and decisions about securities to be included, the display of all bids and offers, and the improvement of the system for clearing and settling transactions.

Beyond these issues, in themselves of profound significance for the objectives of equity and efficiency, are two additional ones to which I will give more extended comment here.

First, who should have access to the new communications system, or new market? The major question concerns the desirability of membership of firms, other than pure market makers, which execute orders on their own account or on behalf of funds which they manage for others.

The most recent rule promulgated by the SEC on this question would limit membership to firms doing at least 80 percent of the value of securities transactions on behalf of nonaffiliated persons or institutions. Three strong arguments can be made for raising this percentage to 100 or to providing that the proportion not in the nonaffiliated category be negligible.

First, such a restriction clears away a major potential source of conflict of interest between the firm and its public customers. Effective elimination of conflicts of interest is central to public confidence in the integrity of the system with which it deals.

Second, the requirement that only firms doing 100 percent of business with the public be allowed access to the new central market will serve to strengthen the broker-dealer community, while with competitive rates, not jeopardize any important objective of public policy. Likely changes in public policy regarding American capital markets will cause some disruption and financial distress to some broker-dealers. Although many persons compellingly argue that broker-dealers can thrive under the new environment—perhaps better than at present—prudence suggests that broker-dealers be protected from threats which can be minimized without harming any important public interest.

Third is the elimination of grounds for a feeling of special advantage: that institutions which trade on their own behalf and have direct access to the central market could have some advantage as compared with the general public in buying and selling securities. The advantage would derive from the superior knowledge and the speed of reaction which are possible for direct participants as compared with those who must deal through others.

Competitive rates

Now I would like to discuss the second major issue related to the new central market—that of competitive or negotiable rates for brokerage services.

In terms of the liquidity of capital markets and their ability to cause prices to react promptly to new information, the lower the costs of transacting and executing orders, the better.

This means that there should be no artificial impediments to selling service at the cost of performing it. The prices of providing services will tend to be approximately proportional to the costs.

The issue of fixed versus competitive rates for brokerage services has been discussed at length in Congress, before the SEC, and at informal meetings at the Treasury Department and other places. The SEC's current policy requiring fully competitive rates after April 30, 1975, is, in my judgment, admirable. Indeed, competitive rates are the only rival to the new systems of communications in their promise of benefits both to the financial community and to the general public. But there is a lot of disagreement with this policy. I would, therefore, like to discuss three main arguments which are still seriously advanced in favor of fixed rates.

The arguments and counterarguments.—Some argue that competitive rates will favor large firms and cause the failure of many smaller, regional firms. The consequence would be a reduction in the ability of the broker-dealer network to raise capital for small, new enterprises.

No compelling evidence has been advanced to support that position. To the contrary, most competent studies of the economics of the brokerage industry show that there are no overwhelming economies of scale in the industry. And in fact, they show that regional firms have an advantage in serving regional needs and have been among the most prosperous.

A second argument advanced against competitive rates is that they would increase the costs of brokerage on small orders and would therefore further discourage investments in equities by individual investors. Almost certainly, the costs of brokerage itself would decline. There has been abundant testimony to this effect before congressional committees and the Securities and Exchange Commission. It is quite possible that the charge for bundles of service now provided would rise for the small investor, but the variety of bundles of service would increase. Individual investors would have a much greater choice of services, and brokerage firms would offer different bundles of services on terms which would make their sale profitable. At the present time many firms feel that it is not profitable to serve small accounts, whereas banks and others find arrangements which provide profit to the institution and reduced costs to small investors. In the market system of the future, there is no reason why brokerage firms should not have the same opportunities and freedoms which the banks and other institutions now enjoy in serving the small investor. They should be able to offer "bare bones" brokerage rates, rates which would almost certainly decline, as compared to those fixed at present levels.

A final argument predicts the demise of the auction market if rates are competitive and off-board trading is allowed. A further result would be a loss of incentives for membership on exchanges.

It is possible that competitive rates combined with the new central market system, which permits trading in listed securities in the over-the-counter market, will decrease and conceivably destroy the importance of trading floors and specialists who operate on them. Even though this outcome is unlikely, the changes being proposed are sufficiently important and their ramifications are sufficiently complex and uncertain to require that one take seriously the possibility that trading floors and specialists will lose their importance.

This issue has recently been the subject of an informative public controversy between the New York Stock Exchange and the Securities and Exchange Commission. Fixed commissions, it is argued, are an all-important incentive to exchange membership in a system which permits nonmember broker-dealers to trade in listed securities. Since the New York Stock Exchange feels that the demise of the exchanges would damage the public interest, they urge that after April 30, 1975, when fully competitive rates presumably will exist, trading in securities listed on exchanges be limited by law to those exchanges. The damage to the public interest which the New York Stock Exchange seeks to avoid—and it is a matter of quite legitimate concern—is the destruction of the auction process for buying and selling securities and the debasement of standards which would result from the elimination of the exchanges as self-regulators. The Securities and Exchange Commission, by contrast, believes that the exchanges would continue as viable, effective organizations and that the auction-agency system would flourish in the new market environment, even if the exchanges became much less important.

The argument that trading floors would disappear contains an anomaly which has not yet evoked public comment. It is alleged that the auction system as it now exists on the New York Stock Exchange and other American exchanges is a more efficient system than any other because it permits the crossing of public orders without the necessity of a dealer's spread. As a result, the cost of transacting is reduced. The anomaly is that this efficiency and this benefit to customers is not put forward as an important incentive to exchange membership. To the extent that the efficiency and benefit are important, the incentive to membership should be important.

Normally in a competitive environment, business flows to those firms with the greatest efficiency or best service. Why would this normal result not be evident in the brokerage business? Those who fear the demise of the specialists and even of exchanges themselves in an era of competitive rates and a third market should strive to create competitive advantages for exchange members and their customers. The primary incentive for exchange membership should be superior ability to serve customers rather than the opportunity to profit from collusively determined rates.

Of course, there may be costs associated with exchange membership which offset or more than offset the advantage just described. The cost which the New York Stock Exchange emphasizes is the cost of maintaining high standards and of ensuring compliance with them. To the extent that different standards exist and to the extent that surveillance and enforcement procedures differ in effectiveness among markets, there is an opportunity for constructive governmental remedies.

No one contends that public regulation should bear unequally on competing firms. Equal safeguards should be provided by the Government to the public investor whether he chooses to trade through an exchange or in the third market. The same standards should exist with respect to financial strength, disclosure of transactions, priority for public orders, and other things. The Securities and Exchange Commission is the appropriate agency for devising, imposing, and enforcing those standards.

In summary, preservation of the essentials of the auction process is of great significance. But would it be jeopardized in the new national market system, even if the exchanges became less important? With the new system, market makers, whether specialists on the floor, block positioners, or third market firms will compete so that would-be buyers and sellers can easily know all bids and offers in the market at any time. The new system will contain the essence of the auction process. At the same time, it must be recognized that the stakes are high and uncertainties do exist. Should the feared adverse consequences appear, effective remedies should be imposed promptly, if only temporarily—perhaps through the prohibition which the New York Stock Exchange seeks.

An international dimension

The reform of our international economic affairs initiated by the President on August 15, 1971, continues to bring tangible benefits to the Nation. In that process, a major milestone has been reached with the final elimination of all of the balance of payments controls on the foreign investing and lending activities of U.S. citizens. The problems posed by these controls for our own financial markets were repeatedly called to our attention in discussions this past fall with financial leaders.

A year ago, at the time international agreement on further moves in the foreign exchange markets was announced, a public commitment was made to phase out the controls by the end of 1974. Since then we have moved gradually, to avoid creating disturbances in foreign exchange markets and to avoid any misunderstandings with our trading partners. But we have been able to accomplish the final objective many months ahead of the deadline.

Back when we were riveted to an exchange rate which had grown out of line with current economic conditions, those controls had a purpose and some effect in limiting dollar outflows. Yet the effect was probably far less than the surface statistics seemed to show, for many of the funds borrowed by businessmen abroad rather than in the United States as a result of the program were probably U.S. funds which had found their way abroad despite the program. Whatever net restraint really existed, the cost was high.

There was a loss of freedom for Americans. Perhaps the freedom to invest your funds where you think the prospects are most promising is not the most basic freedom, but I rejoice in seeing that freedom restored.

There were the real administrative costs for the Government and there were even larger administrative costs for our business firms.

There were losses of income and of jobs in our financial community. It was no accident, I am sure, that the past decade of extremely high growth of international financing activities in London and certain other traditional financial centers coincided with the period of restraints on the competitive activities of our financial institutions.

With controls removed, I believe that our institutions will be able to earn more income and to provide more jobs for Americans by providing more services of all kinds on a competitive basis—on funds flowing out of the United States, on funds flowing into the United States for reinvestment abroad, and on funds flowing from abroad into the U.S. economy.

When we had the controls, we tried to assure foreign investors that the controls should not reduce their interest in the United States. Our story was not altogether convincing. Apparently, many foreign investors hesitated to invest in a country that needed a fence around it to keep money in. They were afraid the controls would somehow, someday prevent them from getting their money out when they wanted it. Our new actions should dispel those fears. The result of our removal of controls on the outflow of investment will probably mean at the same time an increase in the flow of investment to our economy. We have added one more significant attraction to investment opportunities which are already attractive. And we have taken a step which will enlarge and help refresh our capital markets and financial community.

A final comment

Our discussion has focused on capital and particularly equity markets, but the underlying theme has been broader. Fairness and effectiveness have been linked to competition on as broad a basis as possible. The reorganization of markets for foreign exchange so that flexibility allows reflection of market forces will lead to greater freedom in the flow of capital across our boundaries and therefore within them as well. When added to earlier proposals of the President for greater freedom for and competition among financial institutions, these emerging developments promise a flourishing financial system to support our system of enterprise. Who knows, perhaps some day we will once again have relatively free markets for goods and services as well. Fairness and effectiveness, let alone freedom for labor and enterprise will then not be the exception, but the rule.

Exhibit 29.—An act to establish a Federal Financing Bank, to provide for coordinated and more efficient financing of Federal and federally assisted borrowings from the public, and for other purposes

[Public Law 93-224, 93d Congress, H.R. 5874, Dec. 29, 1973]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Financing Bank Act of 1973".

Federal Financing Bank Act of 1973.

FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. The Congress finds that demands for funds through Federal and federally assisted borrowing programs are increasing faster than the total supply of credit and that such borrowings are not adequately coordinated with overall Federal fiscal and debt management policies. The purpose of this Act is to assure coordination of these programs with the overall economic and fiscal policies of the Government, to reduce the costs of Federal and federally assisted borrowings from the public, and to assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions.

DEFINITIONS

SEC. 3. For the purposes of this Act—

(1) The term "Federal agency" means an executive department, an independent Federal establishment, or a corporation or other entity established by the Congress which is owned in whole or in part by the United States.

(2) The term "obligation" means any note, bond, debenture, or other evidence of indebtedness, but does not include Federal Reserve notes or stock evidencing an ownership interest in the issuing Federal agency.

(3) The term "guarantee" means any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any obligation, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions, or any guarantee or pledge arising out of a

statutory obligation to insure such deposits, shares, or other withdrawable accounts.

(4) The term "Bank" means the Federal Financing Bank established by section 4 of this Act.

CREATION OF BANK

SEC. 4. There is hereby created a body corporate to be known as the Federal Financing Bank, which shall have succession until dissolved by an Act of Congress. The Bank shall be subject to the general supervision and direction of the Secretary of the Treasury. The Bank shall be an instrumentality of the United States Government and shall maintain such offices as may be necessary or appropriate in the conduct of its business.

BOARD OF DIRECTORS

SEC. 5. (a) The Bank shall have a Board of Directors consisting of five persons, one of whom shall be the Secretary of the Treasury as Chairman of the Board, and four of whom shall be appointed by the President from among the officers or employees of the Bank or of any Federal agency. The Chairman and each other member of the Board may designate some other officer or employee of the Government to serve in his place.

Meetings.

(b) The Board of Directors shall meet at the call of its Chairman. The Board shall determine the general policies which shall govern the operations of the Bank. The Chairman of the Board shall select and effect the appointment of qualified persons to fill such offices as may be provided for in the bylaws, and such persons shall be the executive officers of the Bank and shall discharge such executive functions, powers, and duties as may be provided for in the bylaws or by the Board of Directors. The members of the Board and their designees shall not receive compensation for their services on the Board.

FUNCTIONS

SEC. 6. (a) The Bank is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank, any obligation which is issued, sold, or guaranteed by a Federal agency. Any Federal agency which is authorized to issue, sell, or guarantee any obligation is authorized to issue or sell such obligations directly to the Bank.

(b) Any purchase by the Bank shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury taking into consideration (1) the current average yield on outstanding marketable obligations of the United States of comparable maturity, or (2) whenever the Bank's own obligations outstanding are sufficient, the current average yield on outstanding obligations of the Bank of comparable maturity.

Fees.

(c) The Bank is authorized to charge fees for its commitments and other services adequate to cover all expenses and to provide for the accumulation of reasonable contingency reserves.

TREASURY APPROVAL

SEC. 7. (a) To insure the orderly and coordinated marketing of Treasury and Federal agency obligations and appropriate financing planning with respect thereto, and to facilitate the effective financing of programs authorized by law subject to the applicable provisions of such law, the prior approval of the Secretary of the Treasury shall be required with respect to—

(1) the method of financing,

(2) the source of financing,

(3) the timing of financing in relation to market conditions and financing by other Federal agencies, and

(4) the financing terms and conditions, including rates of interest and maturities,

of obligations issued or sold by any Federal agency; except that the approval of the Secretary of the Treasury shall not be required with respect to (A) obligations issued or sold pursuant to an Act of Congress which expressly prohibits any guarantee of such obligations by the United States, and (B) obligations issued or sold by the Farmers Home Administration.

(b) Upon receipt of a request from a Federal agency for his approval under subsection (a) of this section, the Secretary of the Treasury shall act promptly either to grant his approval or to advise the agency of the reasons for withholding his approval. In no case shall the Secretary of the Treasury withhold such approval for a period longer than sixty days unless, prior to the end of such period, he submits to the Congress a detailed explanation of his reasons for so doing. In no case shall the Secretary withhold such approval for a period longer than one hundred and twenty days. To the maximum extent practicable, withholdings of approval shall be made in a manner which is not disproportionately detrimental to the functioning of any particular type of Federal program. Expedited treatment shall be accorded in any case in which the Federal agency advises the Secretary of the Treasury that unusual circumstances require such treatment.

Agency financing plans, submittal to Secretary of Treasury.

(c) Federal agencies subject to this section shall submit financing plans to the Secretary of the Treasury at such times and in such forms as he shall prescribe.

INITIAL CAPITAL

Advances, authorization.

SEC. 8. The Secretary of the Treasury is authorized to advance the funds necessary to provide initial capital to the Bank. Each such advance shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. Interest payments on such advances may be deferred, at the discretion of the Secretary, but any such deferred payments shall themselves bear interest at the rate specified in this section.

Appropriation.

There is authorized to be appropriated not to exceed $100,000,000, which shall be available for the purposes of this section without fiscal year limitation.

OBLIGATIONS OF THE BANK

SEC. 9. (a) The Bank is authorized, with the approval of the Secretary of the Treasury, to issue publicly and have outstanding at any one time not in excess of $15,000,000,000, or such additional amounts as may be authorized in appropriations Acts, of obligations having such maturities and bearing such rate or rates of interest as may be determined by the Bank. Such obligations may be redeemable at the option of the Bank before maturity in such manner as may be stipulated therein. So far as is feasible, the debt structure of the Bank shall be commensurate with its asset structure.

(b) The Bank is also authorized to issue its obligations to the Secretary of the Treasury and the Secretary of the Treasury may in his discretion purchase or agree to purchase any such obligations, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, and the purposes for which securities may be issued under the Second Liberty Bond Act are extended to

40 Stat. 288.
31 USC 774

include such purchases. Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. The Secretary of the Treasury may sell, upon such terms and conditions and at such price or prices as he shall determine, any of the obligations acquired by him under this subsection. All purchases and sales by the Secretary of the Treasury of such obligations under this subsection shall be treated as public debt transactions of the United States.

(c) The Bank may require the Secretary of the Treasury to purchase obligations of the Bank issued pursuant to subsection (b) in such amounts as will not cause the holding by the Secretary of the Treasury resulting from such required purchases to exceed $5,000,000,000 at any one time. This subsection shall not be construed as limiting the authority of the Secretary to purchase obligations of the Bank in excess of such amount.

(d) Obligations of the Bank issued pursuant to this section shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States, or any agency or instrumentality of any of the foregoing, or any officer or officers thereof.

GENERAL POWERS

Sec. 10. The Bank shall have power—

(1) to sue and be sued, complain, and defend, in its corporate name;

(2) to adopt, alter, and use a corporate seal, which shall be judicially noticed;

(3) to adopt, amend, and repeal bylaws, rules, and regulations as may be necessary for the conduct of its business;

(4) to conduct its business, carry on its operations, and have offices and exercise the powers granted by this Act in any State without regard to any qualification or similar statute in any State;

(5) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, or mixed, or any interest therein, wherever situated;

(6) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Bank;

(7) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(8) to appoint such officers, attorneys, employees, and agents as may be required, to define their duties, to fix and to pay such compensation for their services as may be determined, subject to the civil service and classification laws, to require bonds for them and pay the premium thereof;

(9) to enter into contracts, to execute instruments to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business;

(10) to act through any corporate or other agency or instrumentality of the United States, and to utilize the services thereof on a reimbursable basis, and any such agency or instrumentality is authorized to provide services as requested by the Bank; and

(11) to determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to Government corporations.

EXEMPTIONS

Tax exemption.

SEC. 11. (a) The Bank, its property, its franchise, capital, reserves, surplus, security holdings, and other funds, and its income shall be exempt from all taxation now or hereafter imposed by the United States or by any State or local taxing authority; except that (1) any real property and any tangible personal property of the Bank shall be subject to Federal, State, and local taxation to the same extent according to its value as other such property is taxed, and (2) any obligations issued by the Bank shall be subject to Federal taxation to the same extent as the obligations of private corporations are taxed.

84 Stat. 1498.
84 Stat. 1435, 1499.
53 Stat. 1153; 84 Stat. 1499.

(b) All obligations issued by the Bank pursuant to this Act shall be deemed to be exempted securities within the meaning of section 3(a)(2) of the Securities Act of 1933 (15 U.S.C. 77c(a)(2)) of section 3(a)(12) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(12)), and of section 304(a)(4) of the Trust Indenture Act of 1939 (15 U.S.C. 77ddd(a)(4)).

(c) Nothing herein shall affect the budget status of the Federal agencies selling obligations to the Bank under section 6(a) of this Act, or the method of budget accounting for their transactions. The receipts and disbursements of the Bank in the discharge of its functions shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

PREPARATION OF OBLIGATIONS

SEC. 12. In order to furnish obligations for delivery by the Bank, the Secretary of the Treasury is authorized to prepare such obligations in such form as the Bank may approve, such obligations when prepared to be held in the Treasury subject to delivery upon order by the Bank. The engraved plates, dies, bed pieces, and other material executed in connection therewith, shall remain in the custody of the Secretary of the Treasury. The Bank shall reimburse the Secretary of the Treasury for any expenditures made in preparation, custody, and delivery of such obligations.

Expenditures, reimbursement.

ANNUAL REPORT

Report to President and Congress.

SEC. 13. The Bank shall, as soon as practicable after the end of each fiscal year, transmit to the President and the Congress an annual report of its operations and activities.

OBLIGATIONS ELIGIBLE FOR PURCHASE BY NATIONAL BANKS

SEC. 14. The sixth sentence of the seventh paragraph of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by inserting "or obligations of the Federal Financing Bank" immediately after "or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association,".

GOVERNMENT CORPORATION CONTROL ACT

59 Stat. 597.

SEC. 15. The budget and audit provisions of the Government Corporation Control Act (31 U.S.C. 841 et seq.) shall be applicable to the Federal Financing Bank in the same manner as they are applied to the wholly owned Government corporations named in section 101 of such Act (31 U.S.C. 846).

86 Stat. 1274.

PAYMENTS ON BEHALF OF PUBLIC BODIES

SEC. 16. (a) Notwithstanding any other provision of this Act, the purchase by the Bank of obligations of any local public body or agency within the United States shall be made upon such terms and conditions as may be necessary to avoid an increase in borrowing costs to such local public body or agency as a result of the purchase by the Bank of its obligations. The head of the Federal agency guaranteeing such obligations, in consultation with the Secretary of the Treasury, shall estimate the borrowing costs that would be incurred by the local public body or agency if its obligations were not sold to the Bank.

(b) The Federal agency guaranteeing obligations purchased by the Bank may contract to make periodic payments to the Bank which shall be sufficient to offset the costs to the Bank of purchasing obligations of local public bodies or agencies upon terms and conditions as prescribed in this section rather than as prescribed by section 6. Such contracts may be made in advance of appropriations therefor, and appropriations for making payments under such contracts are hereby authorized.

NO IMPAIRMENT

SEC. 17. Nothing in this Act shall be construed as impairing any authority or responsibility of the President or the Secretary of the Treasury under any other provision of law, nor shall anything in this Act affect in any manner any provision of law concerning the right of any Federal agency to sell obligations to the Secretary of the Treasury or the authority or responsibility of the Secretary of the Treasury to purchase such obligations.

PROGRAM LIMITATION

SEC. 18. Nothing in this Act shall be construed as authorizing an increase in the amounts of obligations issued, sold, or guaranteed by any Federal agency which issues, sells, or guarantees obligations purchased by the Bank.

SEPARABILITY

SEC. 19. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the validity of the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected.

EFFECTIVE DATE

SEC. 20. This Act becomes effective upon the date of its enactment, except that section 7 becomes effective upon the expiration of thirty days after such date.

Exhibit 30.—Statement by Special Assistant to the Secretary (Debt Management) Roob, February 19, 1974, before the 1974 Bank Investments Conference of the American Bankers Association, New Orleans, La., on the Federal Financing Bank

The Federal Financing Bank was established to deal with the problems created by a proliferation of financing instruments in the market bearing different names but relying ultimately on the Federal credit for their security. The administration-sponsored Financing Bank, enacted into law late in 1973, will, under the direction of the Secretary of the Treasury, consolidate the financing of a variety of Federal agencies and of other borrowers whose obligations are guaranteed by the Federal Government. The improved marketing techniques made possible by the Financing Bank and the status of the bank's obligations, as obligations of the United States, will reduce the costs to the U.S. Government of borrowing in the capital markets, in some cases substantially, and will contribute to a more orderly approach to the securities market. Thus, this will reverse the trend wherein some type of federally sponsored financing was coming to market every 3 of 5 business days.

The Financing Bank is expected to begin operations in the near future. The President has yet to appoint the four additional members of the Board of Directors who will serve along with the Secretary of the Treasury, who is, by law, Chairman of the Board. We expect that the Financing Bank will be in a position to meet many financing needs and have its first market borrowing before the end of this fiscal year.

Summary

Federal Financing Bank financing is permitted under the act for all Federal agencies and for all issuers of obligations guaranteed by a Federal agency as defined by the act. The focus of the bank's operations, however, will be on issues that would go to securities markets.

The Federal Financing Bank Act defines a Federal agency as:

> an executive department, an independent Federal establishment, or a corporation or other entity established by the Congress which is owned in whole or in part by the United States.

The Federal Financing Bank will—

- Allow user agencies to borrow at a lower net interest cost than otherwise available;
- Allow user agencies to better tailor their cash and debt management activities to their needs for funds through the use of credit;
- Minimize the number of trips which the Federal Government makes to the market each year;
- Do away with a proliferation of issues which may be expensive to finance because they are excessively small or have unusual characteristics.

The Federal Financing Bank will not be a new bureaucracy, but will be managed by Treasury staff under the direction of the Secretary of the Treasury and his debt management team.

The Federal Financing Bank will not create new debt; its obligations will merely replace other obligations now in the credit markets.

The Federal Financing Bank will not sponsor new programs; it is only a financing vehicle for programs already authorized.

Obligations of the Financing Bank

Federal Financing Bank obligations will be obligations of the United States just as Treasury obligations are obligations of the United States. The status of Financing Bank obligations is assured by two provisions of the Financing Bank Act.

(1) The Federal Financing Bank may require the Treasury to lend it up to $5 billion. This is at the discretion of the Federal Financing Bank.

(2) The Secretary of the Treasury is authorized to purchase any amount of additional obligations of the bank. Since the Secretary of the Treasury is also Chairman of the Board of the bank, this assures that Treasury's authority to borrow under the Second Liberty Bond Act is always available to assure timely payment of Financing Bank obligations.

Financing Bank obligations will—

- Be sold in the same way as Treasury obligations,
- Pay interest for coupon instruments on a 365 (actual) day basis,
- Have coupons in multiples of ⅛ percent.

Federal Financing Bank obligations will also be like Treasury obligations in that they will be—

- Available in "book entry," registered, and bearer form,
- Eligible for Federal Reserve wire transfer at all Federal Reserve banks or branches,
- Exempt from State and local taxation to the same extent as Treasury securities,
- Lawful investments and acceptable as security for all fiduciary, trust, and public funds (including Treasury tax and loan accounts), the investment or deposit of which is under the authority of any officer of the United States,
- Eligible as collateral for Federal Reserve bank advances,
- Eligible for Federal Reserve open market purchases,
- Payable as to principal and coupon interest at Federal Reserve banks or at the Treasury,
- Payable by Treasury check for interest on registered securities,
- Eligible for denominational exchanges, transfer, and interchanges among bearer, registered, and book entry form at Federal Reserve banks or at the Bureau of the Public Debt of the Treasury,
- Eligible for relief in the event of loss, theft, or destruction in the same manner as Treasury securities,
- Eligible for purchase by national banks without restriction,
- Eligible for investment by Federal credit unions and small business investment companies,

553-554 O - 74 - 31

Countable as liquid assets by members of the Federal Home Loan Bank System.

Which agencies will participate?

The Financing Bank may purchase any obligations issued, sold, or guaranteed by any Federal agency. Moreover, most agencies will find it advantageous to use the bank for their financing since the bank will be able to borrow at lower cost than the individual agencies and will be able to assure availability of funds when financing might otherwise be more difficult. It is our plan to proceed systematically to expand operations of the bank over the course of the next year rather than to assume all the agency financing burden at one time. We will be guided in this by the fact that it would not make a great deal of sense for a new agency to begin to develop an independent financial presence in the market with the bank just around the corner. Also, it would be less urgent to assume the financing for an agency with a well-defined place in the market until the bank has become fully established.

The principal eligible agencies or programs are:

Farmers Home Administration
Export-Import Bank
Maritime Administration
Rural Electrification Administration
Public housing
Urban renewal
U.S. Postal Service
Amtrak
Rural Telephone Bank
Small Business Administration
U.S. Railway Association
DOD military credit sales
General Services Administration
Tennessee Valley Authority
Environmental Financing Authority
Overseas Private Investment Corporation
HEW medical facilities
Student Loan Marketing Association
Washington Metropolitan Area Transit Authority
HUD new community debentures

The total prospective new money needs over the next year of these agencies or programs will be approximately $10 billion, with another $10 billion of refunding of maturities. Many of these issues are short-term securities, such as public housing notes or Eximbank intermediate issues. In addition, Federal Financing Bank obligations will simply replace those obligations and not add to the total. Also, because of the provision in the act requiring that, so far as feasible, the debt structure of the bank be commensurate with its asset structure, there will also be a balancing of maturities. This means that the average maturity of Financing Bank obligations is likely to be somewhat greater than for Treasury obligations.

Exhibit 31.—White House announcement, May 6, 1974, of the designation of four members of the Federal Financing Bank's Board of Directors and of the signing of an Executive order establishing the bank's Advisory Council

The President today announced the designation of four positions in the Federal Government whose incumbents will serve as members of the Board of Directors of the Federal Financing Bank. They are:

THE DEPUTY SECRETARY OF THE TREASURY
THE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
THE GENERAL COUNSEL OF THE TREASURY
THE FISCAL ASSISTANT SECRETARY OF THE TREASURY

The President also created by Executive order [11782, May 6, 1974] the Federal Financing Bank Advisory Council and designated the Secretary of the Treasury as its Chairman. The members are:

THE SECRETARY OF THE TREASURY
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY OF TRANSPORTATION
THE PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES
THE POSTMASTER GENERAL

The Federal Financing Bank was created by the Federal Financing Bank Act of 1973 (Public Law 93–224 of December 29, 1973) to assure coordination of Federal and federally assisted borrowing programs through a single agency.

ORGANIZATION OF THE FEDERAL FINANCING BANK1/

Secretary of the Treasury 2/

Federal Financing Bank Board of Directors

- Secretary of the Treasury, Chairman
- Deputy Secretary of the Treasury
- Under Secretary of the Treasury for Monetary Affairs
- General Counsel of the Treasury
- Fiscal Assistant Secretary of the Treasury

Federal Financing Bank Advisory Council

- Secretary of the Treasury, Chairman
- Secretary of Agriculture
- Secretary of Commerce
- Secretary of Health, Education and Welfare
- Secretary of Housing and Urban Development
- Secretary of Transportation
- President of the Export-Import Bank
- Postmaster General

Federal Financing Bank Officers

President	General Counsel	Vice President and Treasurer	Vice President	Secretary
(Under Secretary of the Treasury for Monetary Affairs)	(General Counsel of the Treasury)	Fiscal Assistant Secretary of the Treasury	(Special Assistant to the Secretary of the Treasury (Debt Management)	(Assistant to the Special Assistant to the Secretary of the Treasury (Debt Management)

1/ All appointments are *ex officio*.
2/ The Act provides that the Bank shall be subject to the general supervision and direction of the Secretary of the Treasury.

Exhibit 32.—Statement of Secretary Simon, May 13, 1974, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing, and Urban Affairs, on reform of the financial system

It is a pleasure for me to appear this morning to reaffirm the administration's total commitment to reform of the financial system and to review again our specific proposals for achieving this goal contained in S. 2591.

Last November I testified before this subcommittee and stressed the urgency of acting on these measures which: (1) will create a more efficient financial system, with consumer and mortgage credit more available; (2) will create a financial system that not only serves the borrower but also the consumer-saver; (3) will create a financial system that serves all the needs of the community; (4) will free the financial institutions from their dependence on Government support in times of difficulty; and (5) will provide a more stable and constant flow of funds into housing.

First of all, we must realize that our financial institutions continue to operate under a system that is outdated in many respects. Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular. The credit crunch of 1966, the monetary and gold crisis of 1968, the severe squeeze of 1969–1970, as well as the interest rate crunch of 1973, illustrate that our system does not adjust well to short-term changes in economic and financial conditions.

Our financial system, like any system which has not been updated, needs to be brought into the 20th century. Presently, it is a system which responds to changes in monetary policy with overt spasms, to the detriment of both savers and borrowers. The reactions in our financial system result in an overabundance of money flowing into institutions at certain times in our business cycle followed by a total cessation of deposits and even large withdrawals at other times. They have been exacerbated by, and in large part caused by, the rigidities built into our banking laws over the past six decades. Financial institution laws simply have not kept up with changing times, and the increased intensity and frequency of these spasms are testimony to that fact. We must strive to create laws which will allow our financial institutions to change with changing times and to provide the services their communities need; to collect the savings of these communities; and to make loans to customers in the most efficient, prudent, and responsive manner possible.

Savings and loan associations and mutual savings banks have lost large amounts of savings in the past 2 months because of governmentally imposed ceiling rates on time deposits required by the rigid asset structures of these institutions. FHLB advances, at an alltime high of $7 billion last year, will be exceeded this year. The problem reached the point where the President felt the need to apply emergency measures to prevent the possibility either of housing credit drying up altogether, or of mortgage rates soaring upward out of the reach of all but the wealthiest. The President's program of an additional $3 billion for the GNMA tandem plan, $4 billion in additional FHLB advances, and $3 billion in Treasury forward commitments to the FHLB is designed to aid housing and ease the stresses on savings institutions, but it binds the Government even more firmly to supporting the rickety structure of financial intermediaries with what are basically ad hoc solutions to their problems.

The only approach to solving the problem is through a fundamental restructuring of the financial system. Regulation Q ceilings hold down deposit rates but do not protect thrifts from disintermediation. To the contrary, they encourage savings outflows and will do so even more as savers learn where the higher rates can be obtained and as competition for their funds becomes even more fierce. Home Loan Bank advances to member institutions are not solutions at all—just fingers in the dike. Our encouragement of a market for mortgages should be carried out for its own sake—not as a stopgap measure to cure temporary crisis.

The present stresses in the financial system, in part the result of uncontained inflation and in part the result of our anti-inflationary efforts, clearly demonstrate that it is now more important than ever for us to act. Although it might be easier to implement these changes during a period of economic and financial calm, we cannot wait for such a period to arrive. We must strengthen the system so that it can withstand the pressures whenever they arise, and we must do so as soon as possible.

Our savings, depositary, and capital needs are not the same as they were 10 years ago, and 10 years from now they will not be the same as they are now. Improved flexibility is the most important reform we can build into the financial system. Our financial institutions *must* be given the flexibility to evolve—to meet the demands of the future. These demands will be met, but the question is whether or not they will be met within the framework of our existing financial institutions. Without the flexibility to begin this evolutionary process, our institutions will either respond to change, serve emerging needs, and grow, or they will remain inflexible and shrink.

Many of the witnesses you will hear in the coming week will support certain provisions of the reform and oppose other recommendations. The proposed Financial Institution Act was carefully and painstakingly worked out over almost 2 years of review and consultation. It represents a balanced, consistent, and attainable set of reforms. In order to remain balanced, the various proposals within the package must be considered together. They cannot be approached piecemeal without the risk of promoting even greater imbalance in the system.

Briefly, the act seeks to improve the efficiency and independence of all institutions within our financial structure through greater reliance on market determination of the cost and availability of credit, safeguarded by existing regulatory agencies. We wish to simplify the structure of financial markets and at the same time to strengthen the private institutions and increase their flexibility and ability to deal both with rapidly changing market conditions and with the evolution of our economy. This is one of the basic thrusts of the entire legislative proposal, which relaxes many of the asset and liability restrictions applying to savings and banking institutions, and which eliminates ultimately self-defeating regulatory measures such as ceiling rates for time deposits and for FHA and VA-guaranteed mortgages.

By removing these unnecessary restrictions, we also expect to better serve the public in the areas of housing and housing credit. In particular, the proposed mortgage tax credit, which operates through the free market, and which affects the basic determinants of the demand and supply for housing mortgage credit, will broaden the sources of housing credit without impairing the now specialized institutions which have had to rely on a loss reserve unrelated to their loss experience.

I want to stress that the proposed legislation is a coordinated package, not a collection of independent measures. Its individual components complement and balance each other. For example, the phased abolition of Regulation Q and other ceiling rates for time deposits at commercial banks and thrift institutions is closely related to expanded asset and liability powers, especially for the thrifts. To implement one of these changes without the others would be seriously disruptive.

Currently, differential ceilings are maintained by regulation to the disadvantage of savers in order to shelter thrift institutions, from the competitive strength of commercial banks with their ability to dominate in the attraction of savings funds. Rather than arbitrary ceilings and differentials we want a strengthening of the asset and deposit structures of savings institutions, so that they will be able to compete effectively with the commercial banks without the need for governmental props.

We also want to assist the small saver. As our savings institutions have changed, his position has changed as well. Less than 10 years ago passbook accounts were the usual means of accumulating savings. Currently, however, they represent less than half of all savings and time deposits. In their place there has been a marked growth of interest sensitive, larger certificate accounts with fixed maturities, and higher yields. The passbook saver has been neglected and even penalized by the ceiling rates set by regulatory agencies. This is especially true for those with accounts of less than $1,000 and yet, for example, these accounts represent more than half the total number of time and savings deposits at commercial banks.

Let me briefly review the proposed legislation.

(1) *Expanded deposit services.*—Banks will be able to offer negotiable order of withdrawal (N.O.W.) accounts to all depositors, and savings accounts to corporations. Federally chartered thrift institutions will be able to provide demand deposits, N.O.W. accounts, and credit cards to all depositors and customers. Federal insurance will be available to State-chartered savings and loan associations without their being required to join the FHLB System.

(2) *Expanded asset powers.*—Thrifts will be able to loan up to 10 percent of their total assets to consumers. Commercial banks and thrift institutions will be able to engage in a limited amount of community development lending. Real estate loans by both will be permitted without any special legal restrictions. Thrifts will be able to acquire high-grade corporate and municipal debt obligations and extend construction loans not tied to permanent financing. A wider range of assets will be permitted to be used for Federal Reserve discounts and FHLB advances.

(3) *Increasing competition and protecting small savers.*—As reduced asset and liability restrictions enable thrift institutions to compete more effectively for savings, artificial restraints upon the efficient allocation of credit by financial institutions such as ceilings on rates paid for time deposits will also be eliminated. Full disclosure of interest payment conditions will be required through a truth-in-savings provision. In addition, differential tax treatment of thrift institutions, another symptom of their present comparative weakness, will be eliminated as the sources of that weakness are also eliminated.

(4) *Insulating the housing sector.*—Two additional measures will further reduce the differential impact of monetary policy upon mortgage credit. First, a tax credit of between 1½ and 3½ percent of interest income from residential mortgages will be made available to holders of mortgage assets based on the percentage of their assets in residential mortgages. Thrift institutions will be the chief beneficiaries of this provision, but commercial banks will also be encouraged to increase the amount of residential mortgages in their portfolios. Individuals will also receive a flat 1½-percent credit. Second, interest rate ceilings on FHA and VA-guaranteed mortgages will be abolished, eliminating a number of aspects of credit rationing and hidden interest charges.

(5) *Strengthening credit unions.*—Credit unions will be permitted access to a NCUA-administered central discount fund for emergency liquidity purposes. In addition, they will be given an option of conversion to a mutual thrift institution form if they desire, which, although not tax exempt, will have the broad range of asset and liability powers established in the other provisions of the act.

We believe, Mr. Chairman, that enactment of these measures will strengthen the financial system to better withstand the pressures of varying monetary conditions, to efficiently channel resources to their most productive or most socially desired use, and to freely respond to changing private or public priorities. While we do not suggest that this proposed legislation is a final solution to the problems of our financial system, we do believe that it is a good beginning. As our institutions and our needs evolve, the competitive environment the act promotes will enable the financial system to easily adapt to those needs through existing institutions.

I would reemphasize that today we are faced with economic and monetary conditions that again raise serious questions about the viability of our financial institutions. Because of ever-increasing Government regulations, many of which had their origin in the 1930's, banks, and particularly savings and loan institutions, have come to rely excessively on the Federal Government to carry them through periods of monetary restraint. Additionally, consumer interests have been severely penalized. Consumer savers have not been allowed a fair return on their savings, and consumer borrowers have suffered through periods of credit unavailability.

Such problems cannot be resolved by piecemeal, interim changes in the financial system. We recognize that the demands for credit will be heavy in the years ahead, and what we need is a permanent system that will provide sufficient freedom in our financial markets to assure that the various institutions competing in those markets have the same powers and the same flexibility. Our recommendations will accomplish this, and what's as important, the result will be increased benefits to housing because all financial institutions will have greater incentives to invest in housing. We are not only concerned with the total number of houses built in a decade but also with the ability to generate a high level of housing starts on a more constant basis, year-in and year-out; and our recommendations are aimed at providing a more constant flow of funds into housing by allowing housing finance to draw from a much larger pool of institutions.

We commend this committee for its willingness to undertake improvement of our financial institutions. We wish again to stress the urgency of our need for a package of reforms that once and for all will end the crises and resulting patchwork solutions to problems that emerge whenever restrictive monetary measures are employed. The Financial Institutions Act will accomplish this, and we again urge its enactment.

Exhibit 33.—Statement of Under Secretary for Monetary Affairs Volcker, May 13, 1974, before the House Ways and Means Committee, on extension of the debt limit

We have again come to that time of year when it is fitting to present revised budget estimates, to review the budget outlook, and to assess that outlook under current economic circumstances. This review would be timely whether or not it were necessary also to discuss action on the statutory debt limit.

The temporary debt limit of $475.7 billion will, however, expire on June 30, 1974, and without congressional action the debt limit will revert to its permanent ceiling of $400 billion on July 1. Since the debt subject to statutory limit will exceed the permanent limit on that date by approximately $75 billion—more or less depending on the exact level of the cash balance—congressional action will be necessary to maintain the borrowing authority and the credit of the U.S. Government.

As a result of final reports on nonwithheld personal income tax receipts in April, the Treasury's cash and debt situation is somewhat improved over our expectations of late last month when these hearings were first scheduled. This improvement, which also reflects some favorable developments on the outlay side, means that the squeeze on the debt limit at the end of May should be less severe than anticipated a few weeks ago.

Nevertheless, if the debt limit is not raised by that time, it appears we will have to retire debt temporarily at the end of this month to avoid exceeding the present limit. A similar situation is expected to develop during the last few days of June, when we could be at or above the temporary debt limit unless we take special measures. This situation is not consistent with orderly financing patterns and practices, and in any event, with the expiration of the temporary debt ceiling on June 30, the need for a new debt limit will be imperative. We propose legislative action adequate to take care of anticipated debt needs through fiscal year 1975.

Attached to my statement are the usual tables. The first of these shows actual operating balances and debt subject to limit through April 30 and estimated debt subject to limit at the end of May and June of this year, assuming a $6 billion cash balance on the latter dates. Table 2 extends these estimates through fiscal 1975, based on the conventional assumptions of a $6 billion cash balance and a $3 billion margin for contingencies. However, unlike earlier years, we have added a further $3 billion contingency for loans to the Federal Home Loan Bank System, reflecting the housing measures announced by the President on Friday. Among those measures, the Treasury under existing legislation will provide standby lending authority to support commitments of purchases of conventional mortgages by the FHLB System up to $3 billion. Such loans to the FHLB System, if utilized, will increase our own cash needs and borrowing requirements by the same amount.

The revised budget figures for fiscal years 1974 and 1975, which underlie these estimates, are reflected in table 3. The expenditure figures will be discussed in detail by the Director of the Office of Management and Budget. Changes in revenue estimates are shown in tables 4 and 5. Apart from the effects of the action taken by this committee with respect to taxation of the petroleum industry, the principal changes reflect some shortfall of corporate income tax receipts from earlier estimates, despite the fact that profits themselves appear to be running up to the assumptions that underly the budget projections.

As this committee is well aware, changes in the public debt are related more directly to the surplus or deficit in the Federal funds than in the unified budget surplus or deficit. The current relationships between these budgetary concepts is shown in table 3.

In summary, the unified budget is now projected to be in deficit by $3.5 billion in fiscal 1974, a somewhat smaller figure than projected in February. In fiscal 1975, the unified budget is projected at $11.4 billion. In contrast the Federal funds budget, which includes receipts and expenditures handled by the Government as "owner," is now projected to be in deficit by $17½ billion in fiscal 1974, and this deficit will increase to nearly $20 billion in fiscal 1975.

This Federal funds deficit results from the fact that large expenditures are made from the Federal funds into the trust funds, and not to the public. As a result of these intragovernmental payments, the trust funds will have a surplus of $8.5 billion. Since we are required to invest this trust fund surplus in Government securities, the result will be to increase the public debt during fiscal year 1975 by more than twice the unified budget deficit.

As you may see by reviewing our projections on table 2, it will be necessary to provide a temporary limit of $505 billion in fiscal 1975 to meet the contingency requirements.

I should again stress the desirability of a realistic margin for contingencies in the statutory debt limit. An error of only 1 percent in *either* outlays or receipts amounts to approximately $3 billion, the whole amount of the conventional contingency allowance. I know of no business that could operate effectively if committed to so small a margin for errors in estimates or unforeseen developments.

As you know, the Congress last fall reduced the administration's debt limit request by $4.3 billion in enacting the $475.7 billion temporary debt ceiling. That reduction, which cut away any contingency allowance, has created a situation in which there have been problems in managing the Treasury's cash position with prudence and full effectiveness. Specifically, we felt obliged to operate with an unduly low cash balance in the first part of April—dropping to about $2 billion, enough to cover expenditures for only 1½ working days—in part because of a debt limit problem we anticipated would develop immediately thereafter. As our projections indicate there is another problem period at the end of May, which, in the absence of legislation, will have to be met through the temporary reduction of debt. In mid-June, we have a problem similar to the April problem; again we will feel obliged to operate with an unduly low cash balance over the middle of the month to help avoid a debt limit problem. And, finally, also as our projections show, we will be able to remain under the debt limit at the end of June only by holding our cash balance to a lower figure than would otherwise be desirable in light of the fact that both July and August are large deficit months.

Also, in managing our cash and debt, we are inevitably subject to the uncertainties arising from changes or disturbances in domestic or international markets. Such contingencies seldom eventuate. Both in looking many months ahead, we need a reasonable margin for handling unexpected needs—even though the needs may be temporary and are not related to changes in the basic flows of receipts and expenditures.

I should also mention that the lapse in the Treasury's authority to borrow directly from the Federal Reserve System has complicated the Treasury's debt management task. We are hopeful that the problems which have held up passage of the direct borrowing authority legislation will soon be resolved. In the interim, we have attempted to deal with the situation by developing new short-term market borrowing techniques to insure a capacity to raise funds on short notice in the face of unanticipated needs. However, such short-term borrowing could in some circumstances be unnecessarily costly and disturbing to the market, and is not a fully effective substitute for access to the Federal Reserve in emergency situations.

The tight debt ceiling enacted in December 1973, economic conditions, and the Federal budget revisions since then jointly bring out one of anomalies in the use of the debt limit as an instrument of control over fiscal policy. A slowdown in real economic growth such as that in late 1973 and so far this year can produce a shortfall in Federal revenues. At such times, a very tight debt limit, by impairing our ability to borrow to offset the revenue loss, could complicate the Government's ability to deal with the situation in a constructive fashion. Indeed, the effect could be quite perverse until the Congress was able to increase the debt limit.

In a time of excessive economic expansion or inflation, on the other hand, when receipts are rising and there is a need for fiscal restraint, the need for borrowing is likely to be reduced, and the debt limit becomes ineffective.

It may be useful at this point for me to comment about the tax cut proposals that are being put forward to stimulate economic activity.

Currently, as you know, we have been going through a very difficult period in which inflation has been very high and production has been falling. In assessing these contrasting developments, which do not fit usual "textbook" descriptions of the economy, I would emphasize that the decline in production has been concentrated primarily in the automobile industry and other sectors directly affected by the energy crisis. This weakness has not spread generally through the economy. Indeed, most basic industries are still operating at practical capacity. Shortages continue to be a major problem, rather than a lack of orders and sales, and these shortages lead to pressures on prices.

Under these circumstances, a tax cut or further general fiscal stimulus would be damaging. It could do little to boost physical production and employment over most areas of the economy. But, by adding to demand, it would add to the already virulent inflation. That inflation is quite obviously much too high. Instead of taking further risks of worsening it, our first priority must be to reinforce the reasonable prospect that it should slow down later in the year by limiting monetary growth and maintaining effective fiscal control. A tax cut at this juncture would run directly counter to this goal.

Finally, in what is likely to be my last appearance before you as Under Secretary of the Treasury for Monetary Affairs, I would like to refer to two more technical matters of concern to this committee.

Immense confusion has been generated in the minds of the public because of the separation of the link between the debt subject to limit and the unified budget surplus or deficit. The anomaly of the debt limit concept employed today is that the unified budget can be balanced or in surplus and we can still need an increase in the debt limit.

For instance, we are now looking at a fiscal year 1974 unified budget which is reasonably close to balance, but the debt subject to limit in that same fiscal year will have increased by about $14 billion. In fiscal year 1975, the unified budget deficit is now estimated to be in the vicinity of $11½ billion, but the debt subject to limit will increase by about $20 billion.

The budget and debt limit concepts could be brought back together and made easier for the American people to understand if the debt limit pertained only to those portions of the debt not held by arms of the Federal Government itself. Proposals of this sort were made before this committee—and rejected—when the concept of the unified budget was new. I believe it would be useful to review that decision in the light of experience, and in the light of the effort to reform the budgetary procedures in the Congress.

In another area of financial management, the Treasury has for some months been studying whether changes should be made in its tax and loan account system. Under this system, which has been in effect since World War I, certain taxes are paid into Treasury tax and loan accounts in commercial banks. The Treasury then calls the money out of these accounts as it is needed for disbursements, thus avoiding disruptive effects on the money market that Treasury operations would otherwise cause.

In view of the recent high levels of interest rates, the Treasury had become concerned that the imputed earnings value of these deposits had become considerably greater than the value of the services banks perform for the Government. Our study had revealed that this is so, and we are now in the process of deciding how the value can best be recouped, bearing in mind that it must be done without upsetting the money market or delaying tax collections. It is possible that we will need to propose that we be given a limited authority to invest a portion of our operating balances to improve the efficiency of our cash management, an authority which we now lack. We will be publishing our report shortly, making our conclusions known to the Congress and the public.

In conclusion, I would urge upon the Congress one further point. Great uncertainty and agonizing problems for the administration and the Congress have been created on more than one occasion in recent years because of difficulties in achieving timely enactment of a new debt limit, in part because of the addition of unrelated and highly controversial provisions to this necessary legislation. I am most strongly convinced that review of the debt limit and these hearings can be an occasion for orderly review by this committee of the financing of the Federal Government, and its relationship to economic developments. However, this necessary and desirable process should not be permitted to threaten, as it sometimes has, a financial crisis for our Government as a by-product of controversy over other measures. I know this committee has itself operated consistently on this basis in the past, and I look forward to your early action in this instance.

TABLE 1.—*Public debt subject to limitation, fiscal year 1974, based on estimated budget outlays of $269.5 billion and receipts of $266.0 billion*

[In billions of dollars]

	Operating cash balance	Public debt subject to limitation
1973	ACTUAL	
June 30	12.6	459.1
July 31	7.2	460.0
Aug. 31	3.1	462.8
Sept. 30	8.3	462.4
Oct. 31	5.7	463.4
Nov. 30	4.7	465.0
Dec. 31	10.4	470.8
1974		
Jan. 31	10.5	469.1
Feb. 28	7.7	471.6
Mar. 31	8.4	475.4
Apr. 30	11.5	472.9
	ESTIMATED	
May 31	6.0	475.0
June 30	6.0	474.0

TABLE 2.—*Public debt subject to limitation, fiscal year 1975, based on estimated budget outlays of $305.4 billion and receipts of $294.0 billion*

[In billions of dollars]

	Operating cash balance	Public debt subject to limitation	With usual $3 billion margin for contingencies	With allowance for contingency of $3 billion Federal Home Loan Bank borrowing [1]
1974				
June 30	6	474	477	477
July 31	6	478	481	481
Aug. 31	6	483	486	486
Sept. 30	6	480	483	484
Oct. 31	6	482	485	486
Nov. 30	6	486	489	491
Dec. 31	6	488	491	493
1975				
Jan. 31	6	486	489	492
Feb. 28	6	492	495	498
Mar. 31	6	495	498	501
Apr. 30	6	492	495	498
May 31	6	499	502	505
June 30	6	494	497	500

[1] Announced in Housing Policy Statement by President Nixon on May 10, 1974; not included in outlay assumption of $305.4 billion.

TABLE 3.—*Budget summary*

[In billions of dollars]

	1974	1975
Receipts:		
Federal funds	181.8	201.4
Trust funds	105.3	116.8
Interfund transactions (deduct)	21.1	24.2
Total budget receipts	266.0	294.0
Outlays:		
Federal funds	199.3	221.3
Trust funds	91.3	108.3
Interfund transactions (deduct)	21.1	24.2
Total budget outlays	269.5	305.4
Surplus, or deficit (−):		
Federal funds	−17.5	−19.9
Trust funds	14.0	8.5
Total budget	−3.5	−11.4

TABLE 4.—*Comparison of fiscal year 1974 receipts as estimated in January and May 1974*

[In billions of dollars]

	January 1974 budget	Change to May 1974			May 1974 estimate
		Economic and reestimate	Legislation	Total	
Individual income taxes	118.0				118.0
Corporation income taxes	43.0	−2.3	−1.0	−3.3	39.7
Employment taxes and contributions	67.7	−1.2		−1.2	66.4
Unemployment insurance	6.2	+.7		+.7	6.9
Contributions for other insurance and retirement	4.0				4.0
Excise taxes	17.1	+.1		+.1	17.2
Estate and gift taxes	5.4	−.3		−.3	5.1
Customs duties	3.5	−.1		−.1	3.4
Miscellaneous receipts	5.0	+.3	−.2	+.1	5.2
Total budget receipts	270.0	−2.8	−1.2	−4.0	266.0
Underlying income assumptions, calendar year 1973					
Gross national product	1,288				1,289
Personal income	1,035				1,035
Corporate profits before tax	126				126

TABLE 5.—*Comparison of fiscal year 1975 receipts as estimated in January and May 1974*

[In billions of dollars]

	January 1974 budget	Change to May 1974 estimate: Economic and re-estimate	Legislation	Total	May 1974 estimate
Individual income taxes	129.0	+1.5	+0.5	+2.0	131.0
Corporation income taxes	48.0	−1.8	−1.7	−3.5	44.5
Employment taxes and contributions	75.3	−.2		−.2	75.1
Unemployment insurance	6.0	+.6		+.6	6.6
Contributions for other insurance and retirement	4.3	+.1		+.1	4.4
Excise taxes	17.4	−.1		−.1	17.3
Estate and gift taxes	6.0	−.4		−.4	5.6
Customs duties	3.8	−.1		−.1	3.7
Miscellaneous receipts	5.2	+.4	+.2	+.6	5.8
Total budget receipts	295.0		−1.0	−1.0	294.0
Underlying income assumptions, calendar year 1974					
Gross national product	1,390				1,401
Personal income	1,135				1,142
Corporate profits before tax	124				134

Exhibit 34.—Other Treasury testimony in hearings before congressional committees

Secretary Shultz

Statement, November 15, 1973, before the Senate Committee on Finance, on extension of the debt limit (S. 326).

Deputy Secretary Simon

Statement, November 6, 1973, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, on the Financial Institutions Act (S. 319).

Under Secretary for Monetary Affairs Volcker

Statement, June 12, 1974, before the Senate Committee on Finance, on extension of the debt limit (WS. 28).

Enforcement, Operations, and Tariff Affairs

Exhibit 35.—Press release, August 1, 1973, concerning series of medals commemorating historic U.S. customhouses

A series of medals, commemorating America's historic customhouses, is being struck by the Treasury Department's Bureau of the Mint in conjunction with the U.S. Customs Service.

The first will be available after August 1, 1973, and is to be unveiled at a ceremony in which U.S. Commissioner of Customs Vernon D. Acree will commemorate the Georgetown, Washington, D.C., Post Office and Customhouse building as an "Historic Customhouse."

The medal features the Georgetown Customhouse, circa 1900, on the obverse side and the seal of the U.S. Customs Service on the reverse. It was designed by Michael Iacocca of the Philadelphia Mint.

The 3-inch medal will sell for $5 at the Bureau of the Mint's exhibit and sales areas located at the mints in Philadelphia, Denver, and San Francisco, and at the Treasury Department in Washington, D.C. It will also be available by mail order from the Philadelphia Mint for $5.25.

Others in the series will include customhouses in Yorktown, Va.; Boston, Mass.; San Francisco, Calif.; Wheeling, W. Va.; Galveston, Tex.; New Orleans, La.; Salem, Mass.; Monterey, Calif.; and Savannah, Ga.

"The Historic Customhouse program is part of Customs contribution to the Bicentennial Era and is in keeping with Federal efforts to accelerate historic preservation by identifying landmarks in advance of 1976," stated Commissioner Acree. "Through the program, Customs is focusing attention on its role as financial mainstay of the young Republic."

Georgetown was one of the nine original Customs districts in the State of Maryland, established by the Fifth Act of the First Congress in 1789. The granite customhouse, built in 1858, is the work of Treasury Architect Ammi B. Young, one of the leading American architects of the 19th century.

"Customhouses symbolize the deep roots of the U.S. Customs Service in American history," Commissioner Acree said. "The collection of revenue and control of international trade are traditional functions of customs officers who are stationed at 300 ports of entry throughout the United States."

Commissioner Acree noted that U.S. Customs collects approximately $4 billion annually in duties and excise taxes, guards the Treasury against fraud, and enforces a wide range of other statutes for some 40 Government agencies.

Exhibit 36.—An act to amend the Par Value Modification Act, and for other purposes

[Public Law 93-110, 93d Congress, H.R. 6912, September 21, 1973]

Par Value Modification Act, amendments. 86 Stat. 116. 31 USC 449 note.

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 is amended by striking out 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 forty-two and two-ninths dollars per fine troy ounce of gold".

SEC. 2. The Par Value Modification Act is amended by adding at the end thereof the following new section:

"SEC. 5. It is the sense of the Congress that the President shall take all appropriate action to expedite realization of the international monetary reform noted at the Smithsonian on December 18, 1971."

Repeal. 48 Stat. 340. Gold, private ownership.

SEC. 3. (a) Sections 3 and 4 of the Gold Reserve Act of 1934 (31 U.S.C. 442 and 443) are repealed.

(b) No provision of any law in effect on the date of enactment of this Act, and no rule, regulation, or order under authority of any such law, may be construed to prohibit any person from purchasing, holding, selling, or otherwise dealing with gold.

Effective date; report to Congress.

(c) The provisions of this section, pertaining to gold, shall take effect when the President finds and reports to the Congress that international monetary reform shall have proceeded to the point where elimination of regulations on private ownership of gold will not adversely affect the United States' international monetary position.

87 Stat. 352
87 Stat. 353

TITLE II—FOREIGN CURRENCY REPORTS

STATEMENT OF FINDINGS

SEC. 201. The Congress finds that—

(1) movements of mobile capital can have a significant impact on the proper functioning of the international monetary system;

(2) it is important to have as complete and current data as feasible on the nature and source of these capital flows, including transactions by large United States business enterprises and their foreign affiliates;

(3) it is desirable to emphasize this objective by supplementing existing legal authority for the collection of data on capital flows contained in section 5(b) of the Emergency

55 Stat. 839.
59 Stat. 515.

Banking Act of 1933 (12 U.S.C. 95a) and section 8 of the Bretton Woods Agreements Act of 1945 (22 U.S.C. 286f).

AUTHORITY TO PRESCRIBE REGULATIONS

SEC. 202. (a) The Secretary of the Treasury (hereafter referred to as the "Secretary") is authorized and directed, under the authority of this title and any other authority conferred by law, to supplement regulations requiring the submission of reports on foreign currency transactions consistent with the statement of findings under section 201. Regulations prescribed under this title shall require that such reports contain such information and be submitted in such manner and at such times, with reasonable exceptions and classifications, as may be necessary to carry out the policy of this title.

87 Stat. 353

(b) Reports required under this title shall cover foreign currency transactions conducted by any United States person and by any foreign person controlled by a United States person as such terms are defined in section 7(f)(2)(A) and 7(f)(2)(C) of the Securities Exchange Act of 1934.

84 Stat. 1124.
15 USC 78g.

ENFORCEMENT

Penalty.

SEC. 203. (a) Whoever fails to submit a report required under any rule or regulation issued under this title may be assessed a civil penalty not exceeding $10,000 in a proceeding brought under subsection (b) of this section.

(b) Whenever it appears to the Secretary that any person has failed to submit a report required under any rule or regulation issued under this title or has violated any rule or regulation issued hereunder, the Secretary may in his discretion bring an action, in the proper district court of the United States or the proper United States court of any territory or other place subject to the jurisdiction of the United States, seeking a mandatory injunction commanding such person to comply with such rule or regulation, and upon a proper showing a permanent or temporary injunction or restraining order shall be granted without bond, and additionally the sanction provided for failure to submit a report under subsection (a).

Approved September 21, 1973.

Exhibit 37.—An act to provide a new coinage design and date emblematic of the Bicentennial of the American Revolution for the dollars, half dollars, and quarter dollars, to authorize the issuance of special silver coins commemorating the Bicentennial of the American Revolution, and for other purposes

[Public Law 93-127, 93d Congress, S. 1141, October 18, 1973]

American Revolution Bicentennial. Coinage design and date emblematic.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the reverse side of all dollar, half-dollar, and quarter-dollar coins minted for issuance on or after July 4, 1975, and until such time as the Secretary of the Treasury may determine, shall bear a design determined by the Secretary to be emblematic of the Bicentennial of the American Revolution.

87 Stat. 455
87 Stat. 456

SEC. 2. All dollar, half-dollar, and quarter-dollar coins minted for issuance between July 4, 1975, and January 1, 1977, shall bear "1776-1976" in lieu of the date of coinage; and all dollar, half-dollar, and quarter-dollar coins minted thereafter until such time as the Secretary of the Treasury may determine shall bear a date emblematic of the Bicentennial in addition to the date of coinage.

Manufacture and storage.

SEC. 3. Until the Secretary of the Treasury determines that the mints of the United States are adequate for the production of ample supplies of coins and medals, any facility of the Bureau of the Mint may be used for the manufacture and storage of medals and coins.

Silver-clad coins, limitations. 84 Stat. 1768 31 USC 391.

SEC. 4. Notwithstanding any other provision of law with respect to the design of coins, the Secretary shall mint prior to July 4, 1975, for issuance on and after such date, 45 million silver-clad alloy coins authorized under section 101(a) of the Coinage Act of 1965, commemorating the Bicentennial of the American Revolution, of such design, in such denomination, and containing such quantities of such other metals as he determines appropriate. In addition, the Secretary shall coin and issue not more than an additional 15 million such coins, if he determines such coins are needed to meet public demand. Coins minted under this section may only be distributed by the Secretary as proof or uncirculated coins at such prices as he may determine. The Secretary is authorized, by regulation, to limit the number of silver coins minted under this section which any one person may purchase. Coins minted under this section shall be treated as pieces subject to the one hundred and fifty million piece limitation contained in section 101(d) of the Coinage Act of 1965, and shall be subject to such limitation. Receipts from the sale of coins under this section shall be covered into the Treasury as miscellaneous receipts.

87 Stat. 456 Numismatic items, distribution.

SEC. 5. In connection with the operations of the Bureau of the Mint, the Secretary of the Treasury is authorized to manufacture and distribute numismatic items. Proceeds from the sale of numismatic items shall be reimbursed to the current appropriation for the cost of manufacturing and handling of such items.

Approved October 18, 1973.

Exhibit 38.—Press release, April 15, 1974, concerning amendments of Treasury's coin regulations

Treasury Secretary George P. Shultz announced today that he has approved regulations [See exhibit 39] prohibiting the exportation, melting, or treating of pennies, in concurrence with the Federal Reserve banks. The Coinage Act of 1965 authorizes the Secretary of the Treasury to take this action whenever he deems it necessary to protect U.S. coinage.

Demand for more than two billion pennies during the past 3 months is double the demand for the same period last year. This unprecedented increase in the outflow of pennies cannot be explained by legitimate needs for commerce and trade, but can only be attributed to speculation that the metal content of the penny will ultimately exceed its face value.

The regulations issued by the Secretary prohibit without exemption any unauthorized melting or treating of pennies. Violators of the regulations, which will be enforced by the U.S. Secret Service, are subject to the statutory penalty of up to $10,000 fine or 5 years' imprisonment, or both.

Exhibit 39.—Amendments regulating exportation, melting, and treating of pennies, April 12, 1974 (31 CFR Part 94—Coin Regulations)

In the judgment of the Secretary of the Treasury it is necessary in order to protect the coinage of the United States to prohibit, except pursuant to authorization granted by the Secretary of the Treasury, the exportation, melting, and treating of one-cent coin of the United States. Accordingly, the following regulations are issued. The prohibitions therein apply only to coins containing bronze and exceptions are made for one-cent coins exported in small amounts for legitimate use as coins or for numismatic purposes, and for small amounts of coins carried in the personal effects of individuals leaving the country. Because of the nature and purpose of these regulations and the obvious necessity for making them effective immediately it is found that notice and public procedure are impracticable, unnecessary, and contrary to the public interest. The regulations are effective immediately. They read as follows:

Sec.
94.1 Prohibition.
94.2 Exceptions.
94.3 Definitions.
94.4 Penalties.

AUTHORITY: The provisions of this Part 94 issued under sec. 105, Coinage Act of 1965, Public Law 89–81, 31 U.S.C. 395.

§ 94.1 *Prohibition.*

Except as specifically authorized by the Secretary of the Treasury (or any person, agency, or instrumentality designated by him) or as provided in this part, no one-cent coin of the United States may be melted, treated, or exported from the United States or any place subject to the jurisdiction thereof. This prohibition shall not apply to any Department or agency of the United States.

§ 94.2 *Exceptions.*

The prohibition contained in 94.1 against exporting one-cent coin of the United States shall not apply to the following:

(a) Exports of one-cent coins having an aggregate face amount value not exceeding $5 in any one shipment, to be legitimately used as coins or for numismatic purposes. This paragraph does not authorize export for the purpose of the sale or resale of coins for melting or treating by any person;

(b) One-cent coin of the United States having an aggregate face amount value not exceeding $1 carried in the personal effects of any individual departing from a place subject to the jurisdiction of the United States.

§ 94.3 *Definitions.*

(a) "Person" means an individual, partnership, association, corporation, or other organization.

(b) "Treat" means to melt, smelt, refine, or otherwise treat by heating or by a chemical or electrical process.

§ 94.4 *Penalties.*

(a) Any person who melts, treats or exports one-cent coin of the United States in violation of § 94.1 shall be subject to the penalties provided in section 105 of the Coinage Act of 1965, which provides:

(*a*) Whenever in the judgment of the Secretary such action is necessary to protect the coinage of the United States, he is authorized under such rules and regulations as he may prescribe to prohibit, curtail, or regulate the exportation, melting, or treating of any coin of the United States.

(*b*) Whoever knowingly violates any order, rule, regulation, or license issued pursuant to subsection (a) of this section shall be fined not more than $10,000, or imprisoned not more than 5 years, or both.

(b) Any coins exported, melted, or treated (or any metal resulting from such melting or treating) in violation of any provision of this part or of the provisions of any authorization, license, ruling, regulation, order, direction, or instruction issued by or pursuant to the direction or authorization of the Secretary of the Treasury pursuant to this part shall be forfeited to the United States as provided in section 106 of the Coinage Act of 1965.

(c) Attention is also directed to 18 U.S.C. 1001 which provides:

Whoever, in any matter within the jurisdiction of any Department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than 5 years, or both.

Effective Date. This regulation shall become effective upon publication in the Federal Register.

(Signed) GEORGE P. SHULTZ,
Secretary of the Treasury.

Exhibit 40.—Remarks of Deputy Assistant Secretary Matthew J. Marks, February 15, 1974, before the National Institute on Customs, Tariffs and Trade, American Bar Association, San Diego, Calif., on "The Countervailing Duty and Antidumping Laws as Effective Defenses Against Unfair Trade Practices Over the Next Decade"

In his appearance before the Joint Economic Committee on February 8, Secretary of the Treasury Shultz stated:

> The tensions inherent in the major trade and balance of payments adjustments that countries will experience shortly—even with more reasonable oil prices—underscore the importance of maintaining the impetus toward trade liberalization. The difficult problems ahead can be solved more easily within a context of expanding world trade encouraged by renewed progress toward trade liberalization.

My speech deals with a narrow but nevertheless important segment of this broad picture: unfair international trade practices and how to cope with them. I plan to focus on the administration's activities in enforcing the antidumping and countervailing duty laws, past accomplishments, prospects for change, and what role these activities will play in the multilateral trade negotiations.

Antidumping

How Antidumping Act operates

The Antidumping Act of 1921, as amended, has often been cited as a very complex statute. . . .

The concept of dumping under U.S. law, and internationally as well, is nevertheless quite simple. Dumping occurs when foreign merchandise is sold in the United States at less than its "fair value." In the normal situation this means at less than its home market price; and in addition such less than fair value sales cause injury to a domestic industry in the United States. If the Treasury, which conducts the fair value investigation, and the U.S. Tariff Commission, which performs the injury investigation, make affirmative determinations, the Secretary of the Treasury is required to issue a "finding of dumping." Merchandise covered by such a finding is assessed special dumping duties only to the extent there is price discrimination. Normally such duties are assessable on all entries effected after publication of a notice of "withholding of appraisement" by the Treasury Department. Thus, if the export price to the United States is $10 while the foreign market value is $12, a special dumping duty of $2 would be assessed to equate the prices.

The intent of the law is to nullify the effects of injurious price discrimination. The Antidumping Act does not, and is not intended to, act as a protectionist cushion for U.S. industry, but rather as a means of defending domestic enterprise from unfair international pricing practices.

Information regarding suspected dumping supplied to the Commissioner of Customs by domestic complainants must, under the Antidumping Regulations, contain data not only concerning the alleged discrimination between foreign market and export prices but also regarding the alleged injury being suffered by a domestic industry.

I raise this point because all too often the fallacious assumption is made by some complainants that, since the Treasury by law is restricted to determining whether sales at less than fair value are taking place, it has no need for injury information and, indeed, no right to inquire into this area in determining whether to initiate an antidumping investigation. It would obviously make no sense for Treasury to proceed with an extensive investigation only to learn that no injury conceivably could have existed. This would be a waste of the taxpayer's money and valuable Treasury manpower.

Antidumping activity in recent years

Beginning shortly after the Nixon administration assumed office, the Treasury undertook a major effort to rejuvenate its administration of the antidumping law. The large consumer market in the United States was a prime target for foreign firms. To gain a foothold in our marketplace, some foreign firms were resorting to unfair trade practices, including dumping. The new administration, Congress, and American producers were all in agreement that something had to be done better to defend American industry from foreign dumping practices.

Tightened administration of the Antidumping Act and substantial increases in manpower devoted to the administration of antidumping investigations brought dramatic results. Final actions taken by Treasury under the act increased from 16 in fiscal year 1968 to 42 in fiscal year 1973. During this same time period, findings of dumping jumped from 1 to 8, reaching a peak of 18 in fiscal year 1972.

Notwithstanding the increase in Treasury's workload, the time required to process antidumping cases was sharply reduced. During fiscal year 1968, the average number of days required by Treasury to complete an antidumping investigation was 560, with some cases taking more than 2 years. The comparable figure for investigations initiated in fiscal year 1973 is 257 days, a reduction of more than 50 percent.

It is frequently overlooked that foreign as well as domestic interests benefited from this rejuvenation of the Antidumping Act. Foreign firms are now relieved from the long period of uncertainty which had previously prevailed as a result of drawn-out antidumping investigations, which some of our trading partners had described as an American nontariff trade barrier.

The number of investigations initiated reached a peak of 39 in fiscal year 1972, and then declined to 27 in fiscal year 1973. In the first half of fiscal year 1974. only four cases were initiated.

The decline in the number of cases under investigation should not be construed as signifying a relaxation in the Treasury's policy to administer the Antidumping Act effectively, swiftly, and vigorously. Exogenous factors have undoubtedly played a role in the large drop in antidumping activity. As a result of international monetary realignments, U.S. products have become more price competitive with imported merchandise. Thus U.S. markets, for the moment, have become less attractive to foreign producers. In addition, with burgeoning economic demand abroad, there is diminished foreign productive capacity available. This situation may be temporary in view of the recent strengthening of the dollar. Moreover, the need of foreign governments to pay the increased oil cost in dollars may lead to a renewed foreign export drive in the U.S. market.

Vigorous and fair enforcement of the Antidumping Act still is, and will continue to be, a primary concern of this administration.

Prospects for change: Trade bill amendments to Antidumping Act

Even though many Members of Congress have commended the Treasury for its more effective administration of the act, the executive branch, in close collaboration with the Congress, explored further refinements to the statute for inclusion in the trade bill package.

New open disclosure policy.—The most important amendment in the present law—and one which was long overdue, I might add—would provide that the publication of final decisions by the Treasury Department and the Tariff Commission contain "a statement of findings and conclusions and the reasons or bases therefor, on all the material issues of fact or law presented." In the past, Treasury's public notices of tentative and final decisions have too frequently tended to be skeletonized, containing a minimum of information concerning the facts gathered and the motivating rationale behind decisions made in a particular investigation. As a result persons not involved in the investigation in question, including practicing members of the Customs bar, found it difficult to gauge the precedential impact of individual decisions. The new provision, which incidentally the Treasury plans to extend to tentative as well as final determinations, will substantially correct this omission and increase significantly the amount of information available to outsiders, i.e., those not involved in the particular investigation.

Under our new policy we propose, in particular, to furnish more information regarding the adjustments made in reaching our fair value determinations, for these can be crucial to the final decision. This will help clarify Treasury's policy on these and other important issues. A detailed notice should be of tremendous benefit to legal practitioners, and all others concerned with antidumping, by making it easier to follow and comprehend Treasury's precedents in the decision-making process.

I might add that Treasury prides itself in adhering to the doctrine of *stare decisis*. I do not mean to imply by this that we shall never reverse earlier precedents if we are convinced that they are wrong. On the contrary, we follow the traditional common law evolutionary approach in administering the Antidumping Act. If we abandon an earlier precedent, I can promise you that under the new policy we shall fully explain what we are doing and why. We are living in an ever-changing world and there is no justification for intellectual sterility in the administration of the Antidumping Act.

In this same vein of apprising the public and practitioners of the rationale behind Treasury's antidumping decisions, the Treasury now has available for inspection an informal book entitled "Compilation of Adjustments and Issues in Recent Antidumping Investigations." Starting in August 1972, this compilation was prepared by a Treasury officer of the Office of Tariff and Trade Affairs for his personal use in processing antidumping cases. Although it is not, and does not pretend to be, an official compilation of Treasury precedents, it can be of considerable help to practitioners desiring to research specific technical issues which have arisen in past cases.

I might add as an aside, that this new, more open Treasury policy of providing significant information regarding our decisionmaking process, will in no way conflict with our traditional practice of respecting and protecting the confidentiality of price and other private business information supplied to us in confidence during investigations. Our Antidumping Regulations lay out clearly the types of information entitled to claims of confidentiality. We have no intention of putting foreign or American firms in a position where, in order to prevail in an antidumping proceeding, they must disclose their innermost business secrets to their competition.

Sales below cost.—Under the present law, if the cost of production of an item is $20 and that item is sold for $15 in the home market and for $15 to the United States, the sale is not at less than fair value. During the consideration of the trade bill, the Ways and Means Committee concluded that American producers should not have to compete with foreign merchandise sold below cost. The trade bill therefore contains an amendment which allows the home market price to be disregarded for fair value comparison purposes to the extent it fails to reflect the full cost of production.

To prevent application of this change to situations which were never intended to be encompassed within its scope, e.g., the sale below cost of outdated models at the end of the year, H.R. 10710 provides that the new sales below cost provision would apply only when the Secretary of the Treasury determines that such sales: "(1) have been made over an extended period of time and in substantial quantities, and (2) are not at prices which permit recovery of all costs within a reasonable period of time in the normal course of trade . . ."

Sales by another.—Another proposed amendment would alter the methodology of fair value price comparisons. Under the present act, when a firm's sales in its home market are inadequate for fair value comparison purposes, its export prices are required to be compared with another firm's home market prices in the same country, which the former company neither knows nor controls.

This inequity would be corrected under the proposed amendment. If a firm's sales in the home market are inadequate to provide a basis for fair value comparison, Treasury will, under the amendment, turn, not to another firm's prices in the home market, but rather to the first firm's prices to third countries, and these will be compared with the prices at which that firm sells to the United States.

Other changes.—Other changes in the act contained in the trade bill are primarily administrative. I would like to mention three of these very briefly.

Time limits largely paralleling those set forth in the Treasury's Antidumping Regulations will be imposed by statute for preliminary Treasury actions on investigations: 6 months for normal investigations and not more than 9 months for more complicated investigations.

Treatment of sales from state-controlled-economy countries, likewise prescribed by Treasury Regulations, will, under H.R. 10710, become an integral part of the Antidumping Act. Since state-controlled-economy countries, i.e., Communist-bloc countries, operate under an administered price system, their home market prices are relatively meaningless for fair value comparison purposes. They frequently are not reflective of prices that prevail under a free market mechanism. Accordingly, in conducting antidumping investigations of products from these countries, Treasury uses the home market price of the nearest similar merchandise sold in a non-state-controlled-economy country. Adjustments are, of course, made as appropriate for any differences in the products of the two countries.

The trade bill also requires that transcribed hearings be held by both Treasury and the Tariff Commission, and that these transcripts be made available to the public. Treasury recently began to transcribe its hearings on an experimental basis and anticipates no difficulty with this requirement. The Tariff Commission has traditionally conducted transcribed hearings in antidumping cases.

The Ways and Means Committee report makes clear that the traditional non-adversary nature of antidumping investigations is to be preserved. Accordingly, the bill expressly exempts these hearings from the requirements of the Administrative Procedure Act. Among other things, this will enable both agencies to continue to treat in confidence sensitive price and other trade information furnished in the course of antidumping investigations.

International Anti-Dumping Code

Under the precepts of the International Anti-Dumping Code, to which the United States is a signatory, the United States and its principal trading partners agreed to adhere to basic principles concerning antidumping proceedings. The United States has found the Code to be valuable in that it provides a common, international forum for discussion of antidumping matters and a standard by which the administration of all signatory governments' antidumping statutes can be measured. A similar forum might well be useful in dealing with international subsidy practices and perhaps other nontariff trade barriers as well.

Countervailing Duties

How countervailing duty law operates

The countervailing duty law was enacted in substantially its present form in 1897. A cursory glance at this three-sentence statute would suggest a rather simple law governing a relatively simple concept: that the Secretary of the Treasury shall impose an additional duty equal to the amount of any "bounty or grant" determined by him to be paid or bestowed on dutiable imports into the United States. Unlike the Antidumping Act, there is no injury requirement in the countervailing duty law. The law is mandatory in that the Secretary of the Treasury must assess a countervailing duty once he determines a bounty or grant is being paid or bestowed on imports.

Procedures for administering statute

Although the Treasury Department may open a countervailing duty investigation on its own initiative, normally such investigations are launched upon receipt of complaints by domestic concerns. The Customs Service is charged with analyzing the contents of the complaint and verifying its allegations. This normally calls for an inquiry of the foreign government concerned regarding the nature of any assists that it may be paying or bestowing on the particular exports to the United States. Based on the information obtained from the complainant and other interested persons and from the overseas inquiry, a decision is made on the appropriateness of initiating a formal investigation.

If Treasury decides to proceed, a countervailing duty proceeding notice is published in the Federal Register, offering interested parties a given period, normally 30 days, in which to present comments and views. Thereafter, the Secretary of the Treasury makes a final decision. If affirmative, countervailing duties are assessed 30 days after publication of a countervailing duty order in the Customs Bulletin.

The countervailing duty is always equal to the bounty or grant being paid or bestowed on exports. Once imposed, countervailing duties cannot be lifted until the foreign subsidy is eliminated. The purpose of countervailing is, of course, to nullify any trade advantage resulting from the bounty or grant.

What is a bounty or grant?—domestic and international implications

The apparent simplicity of the statutory language and investigatory procedures is disarming for, in fact, administration of this law entails difficult and complex issues, probably some of the most difficult in the field of unfair international trade practices. The statute does not define the term "bounty or grant", and there is considerable controversy, domestic and international, as to what constitutes an unfair subsidy. This is not surprising, in view of the international economic implications of assessing countervailing duties to offset the trade-distorting effects resulting from export subsidy schemes.

Unlike the antidumping area, where an international agreement has been concluded with a detailed code of conduct covering the actions that may be taken to counteract dumping, in the countervailing duty area the only international understanding reached is contained in certain very generalized articles and notes of the GATT.

Also, unlike the Antidumping Act, which deals with international price discrimination practices of private companies, the countervailing duty law almost invariably deals with the actions of foreign governments. From an international trade relations standpoint, this tends to render more difficult the reaching of a decision as to what constitutes a bounty or grant, for, once export subsidy schemes become locked in as an integral part of a government's fiscal policy, the government concerned is understandably reluctant to alter its practices. At the same time, foreign governments tend to react to a U.S. countervailing action as an economically provocative act.

For its part, however, the U.S. Government cannot reasonably be expected to ignore foreign export subsidy schemes designed to nullify comparative advantages which American firms enjoy over foreign import competition.

There is controversy as to whether injury should be made a condition precedent to the establishment of a bounty or grant. Most foreign governments follow the provision of GATT Article VI which couples injury and subsidy as conditions precedent to countervailing. The U.S. law does not. We are not required to conform to the GATT Article VI requirement because of a "grandfather clause" exempting preexisting legislation.

Foreign governments, while conceding the legal correctness of the U.S. position, contend it is unreasonable for a major trading nation such as the United States to take advantage of such a legal technicality more than a quarter of a century after the signing of the GATT. They argue also that it is in the U.S. interest to allow foreign governments to subsidize the American consumer if this does not cause injury to American industry.

U.S. representatives have at times questioned the appropriateness of an injury requirement in countervailing duty legislation. A reasonable argument can be made that export subsidies are inherently bad in that they are trade-distorting measures which nullify the principle of comparative advantage.

There is also domestic controversy in the United States as to the meaning of "bounty or grant." Probably the broadest interpretation of this term was stated in dicta of two early U.S. Supreme Court opinions relating to rebates of indirect taxes. The dicta in the Court's *Downs* and *Nicholas* opinions refer to the terms "bounty or grant" as applying to *all* tax rebates, including rebates of *indirect* taxes. The holdings, on the other hand, stand for the proposition that a bounty or grant exists to the extent a government grants a larger rebate, upon exportation, than the tax originally assessed. (*Downs* v. *United States*, 113 F. 144 (1902), aff'd 187 U.S. 496 (1903) ; *Nicholas & Co.* v. *United States*, F. Ct. Cust. App. 97 (1916), aff'd 249 U.S. 34 (1919).)

For more than three quarters of a century, the Treasury in its administrative decisions has consistently construed the *Downs* and *Nicholas* decisions in accordance with the holdings rather than the dicta. Nevertheless, many in the United States insist that the latter reflect the true intent and spirit of the countervailing duty law. The *Downs* and *Nicholas* dicta have fairly recently been quoted with approval in two court opinions which were dealing in their holdings with other issues.

This leads to another controversial issue. Since the countervailing duty law enactment in 1897, international trade has multiplied astronomically. And even more significantly, the tax and fiscal systems which have evolved since the final years of the 19th century have understandably become vastly more complicated. To say the least, it is not a simple matter, under such conditions, to construe the term "bounty or grant" as a living reality in the last quarter of the 20th century. Should, for example, a rebate of the value-added tax, which has been adopted by most European countries as a principal source of revenue, be construed as a bounty or grant under the countervailing duty law? If the *Downs* and *Nicholas* dicta were applied to the value-added tax, the trade effects would not be inconsequential.

Working without a statutory definition of "bounty or grant," the Treasury carved out a general interpretation of the statute on a case-by-case basis. From these administrative decisions, it is possible to derive three broad categories where the Treasury considers a bounty or grant to exist:

1. Straight subsidies benefiting exports, where it is established, directly or by clear implication, that the payments are being made for the purpose of improving the international competitiveness of such exports;

2. Rebates, upon exportation, of indirect taxes, e.g., excise and consumption taxes, where the rebate exceeds the amount of the tax originally assessed; and
3. Rebates, upon exportation, of indirect taxes, where the tax paid was not directly related to the product exported or components thereof.

Under GATT Article VI, any rebates, upon exportation, of direct taxes, e.g., income and social security taxes, are countervailable, while rebates of indirect taxes are not. The Treasury has never, so far as I am aware, countervailed a direct tax rebate. On the other hand, it has never ruled that direct tax rebates do not constitute "bounties or grants" under the U.S. law.

The GATT distinction was established at a time when most economists accepted a general assumption that indirect taxes are invariably passed on to the consumer while direct taxes are not. It was on this basis that Article VI provided for different treatment of rebates of direct, as contrasted with indirect, taxes.

Most economists now appear to be more cautious in accepting this assumption as a general truism. There seems little doubt that indirect taxes are frequently not passed through, while on occasion direct taxes are. What happens often depends on whether we are dealing with a buyer's or seller's market. I have seen no convincing quantification of the extent to which direct and indirect taxes are, or are not, passed through. The treatment of direct and indirect tax rebates might well prove a difficult issue in the multilateral trade negotiations.

The Treasury, in its administrative decisions, examines the underlying effects of foreign assistance schemes in determining whether they constitute bounties or grants. Thus, it has determined a bounty or grant was being paid or bestowed on exports in a case involving foreign regional assistance to a locally depressed area. One of the key elements leading to this conclusion in one case was the fact that more than 80 percent of the output of the plant benefiting from the assistance scheme was to be exported to the United States.

While the above categories do not pretend to cover every instance where the Treasury has countervailed—for example, the Treasury has frequently countervailed multiple exchange rate systems, depending on how the multiple rate structure operates and its effect on foreign exports to the United States—they do reflect a set of very general guidelines that have emanated from decisions reached since the law was enacted. One problem, of course, is that the principles mentioned relate only generally to the ambit of the varied and highly sophisticated subsidy practices that affect international trade in the 1970's. As business firms become more and more export oriented, their governments increasingly become partners in making their commodities as attractive as possible on the world market. Such a world did not exist in 1897, when the Congress enacted a three-sentence statute. Thus, the crucial question in administering antisubsidy legislation is how it should be construed in light of present-day realities.

A resolution of this important trade problem is essential, especially as we approach the multilateral trade negotiations. The problem is accentuated on the one hand by a concern in certain segments of our economy over allegedly subsidized import competition. Conversely, foreign governments, many of whose programs to stimulate exports have become entwined in the basic fiscal fabric of their domestic economies, are hardly enchanted at the thought of making major changes in this area. The result until now has been a lethargic effort in the GATT to inventory alleged subsidy practices of all member governments, but unfortunately without meaningful results thus far in coming to grips with the basic problem. What is needed is a new set of international principles which will lay down agreed rules as to what is, and is not, acceptable in the export subsidy area. Such a multilateral negotiation will be difficult, as it will involve much give-and-take on all sides.

Alternatively, each government could approach the problem unilaterally in terms of its domestic antisubsidy legislation. To me such an approach is unthinkable in that it would undoubtedly lead to retaliations and counterretaliations. I should emphasize in this connection that no government, including the United States, can claim to be simon-pure in this area.

Trade bill amendments to countervailing duty law

There are a number of major amendments to the countervailing duty law in the trade bill, as approved by the House.

Twelve months time limit.—The Secretary of the Treasury, under one amendment, would be required to decide within 12 months after a question is presented to him whether "bounties or grants" are being paid or bestowed under the statute. Under the present law, there is no time limit for the completion of investigations. In all candor, this amendment reflects the interest of the Congress in obtaining more prompt action on countervailing duty complaints, some of which have been under consideration by Treasury for very extended periods of time because of problems such as those I have outlined.

Discretionary authority.—Another amendment would grant the Secretary of the Treasury discretionary authority for 4 years to refrain from countervailing where he determines that such action would be likely seriously to jeopardize the completion of the multilateral trade negotiations. This provision reflects the House's understanding of the difficult international problems I have discussed, and its effort to facilitate an international agreement in the subsidy area as part of the multilateral trade negotiations. If an international agreement is reached, and such agreement is approved by the Congress in the manner provided for in the trade bill, it will very likely be necessary to submit to Congress a new amendment to the countervailing duty law under the same procedures to bring the present legislation into conformity with the new international agreement. In the absence of such an agreement, the temporary discretionary authority would lapse and Congress and the executive branch would then have to decide how the United States should defend itself, on a unilateral basis, against subsidized imports. I fervently hope that this Government will not find itself confronted with such a decision!

H.R. 10710 grants similar discretionary authority with respect to articles which are the product of facilities owned or controlled by a developed country if the investment in, or operation of, such facilities is subsidized. In this case, however, the discretionary authority is limited to 1 year.

The trade bill also grants discretionary authority to the Secretary to refrain from countervailing products that are subject to quota restrictions or effective quantitative limitations on their exportation to the United States, if the Secretary of the Treasury feels that these are an adequate substitute for countervailing. There is no time limit on the exercise of this latter discretionary authority.

Right of judicial review.—I would like to dwell briefly on the amendment to the trade reform bill providing complainants with the right of judicial review of negative countervailing duty decisions by the Secretary of the Treasury. Under a decision handed down by the Court of Customs and Patent Appeals in 1970, it was determined that American complainants had no right of appeal to the courts against a negative countervailing duty ruling by the Secretary. Members of Congress and others have expressed concern that this judicial ruling might adversely affect the ability of American producers to obtain meaningful relief under the countervailing duty law and, therefore, the House approved an amendment of the statute to provide for a right of judicial review. It was felt that American producers should enjoy the same right of judicial review in the Customs Court as is available for importers who are presently entitled to judicial review of the actual assessment of countervailing duties.

Other changes.—H.R. 10710 makes other substantive amendments to the statute. The most significant of these would extend the countervailing duty law to nondutiable imports. This provision is coupled with a requirement that the Tariff Commission determine injury. The injury requirement for duty-free articles would prevail only as long as this is required under the international obligations of the United States; i.e., GATT Article VI. It should be emphasized that the injury requirement is applicable only to duty-free merchandise.

Summary

The amendments to the countervailing duty law reflect the very strong sentiment of the House of Representatives that the law should be administered far more vigorously than at present. At the same time, the temporary discretionary authority granted to the Secretary provides for a period of 4 years, during which intense efforts will have to be made to reach an international understanding on the extremely difficult and complex issues which I discussed earlier. The road toward achieving such an understanding, which can be acceptable to the executive and Congress as well as to our trading partners, will be long and difficult. The failure until now of the United States and its trading partners to come to grips with the fundamental problems inherent in this area may have led to a general hardening of positions and inflexibility toward alternative approaches. Hopefully, however, all interests recognize that we have come to a crossroads on this issue. It can no longer be swept under the rug and put off "for future consideration." In this atmosphere, acceptable solutions can and must be found. If we are to continue to make advances in the development of a healthy world trade structure, there is no other choice.

Exhibit 41.—Other Treasury testimony in hearings before congressional committees

General Counsel Schmults

Statement, March 27, 1974, before the Subcommittee on Securities of the Committee on Banking, Housing and Urban Affairs, on S. 3126, to authorize the SEC to prohibit off-exchange trading in the event it determines such trading is contrary to the public interest and the protection of investors.

Statement, April 24, 1974, before the Subcommittee on Merchant Marine of the Senate Committee on Commerce, on the denial of an application for a Jones Act waiver for shipments of fertilizer and possible solutions to the fertilizer shortage in the Pacific Northwest.

Statement, April 30, 1974, before the Subcommittee on Foreign Operations and Government Information of the House Committee on Government Operations, on access to records on persons maintained by Government agencies.

Tax Policy

Exhibit 42.—Statement of Assistant Secretary Hickman, November 28, 1973, before the Subcommittee on Energy, Senate Finance Committee, on fiscal policy and the energy problem

Mr. Chairman and members of this committee, I am pleased to be with you this morning and to discuss with you, on behalf of the Treasury Department, the question of "Fiscal Policy and the Energy Crisis."

I do not appear before you as an expert on the intricacies of the energy problem, and I shall confine my remarks to the role of taxes and to aspects of Government revenues and expenditures as they relate to the energy problem.

It is important, at the outset, to distinguish between short-term and long-term problems. The immediate problem is how to allocate the current reduced supply. The long-term problem is how to make the U.S. demands for energy compatible with the rest of the world's demands for energy and with the world's supply of energy commodities. Let me look first at the short term.

The short-term outlook

We are at present and at current price levels faced with a shortage of petroleum products. The fundamental economics of a shortage are often lost in discussion. A shortage exists when there is not enough of a product to satisfy those who would like to buy it at the existing price. In a free market, shortages do not exist as the price simply rises, the number of people who wish to purchase the products decreases as the price rises, and ultimately supply and demand balance out. The price at which that occurs is often referred to as the price which "clears the market."

At the present time, we have two special factors which must be taken into account and which accentuate each other. First, we have a system of price controls which for better than a year has held down the price of petroleum products in the United States while the prices of those products have risen in the free world market. Second, we have had an abrupt and substantial decrease in the supply of petroleum products available because of the embargo by the Arab nations. Thus, in order for the pricing system to perform its classic role of eliminating petroleum shortages by bringing supply and demand into balance, there would need to be a major increase in existing prices—first, in order to overcome the cumulative amounts by which controls have kept U.S. prices below free market world prices, and, second, to reflect the major reduction in total supply caused by the embargo.

Our energy experts estimate that the supply of petroleum products will in the near term drop between 15 to 20 percent below the amount which would otherwise be consumed at existing prices. There seems to be general agreement that a great deal of the current consumption of petroleum products is not really necessary and that our citizens could, without major inconvenience, reduce their consumption significantly. The problem is how best to wring that nonessential consumption out of the economy.

Short-term options

One option which moves in the direction of eliminating nonessential consumption is to make it inconvenient and difficult for people to obtain petroleum products, or simply to make some of them partially unavailable—thus, the recommendation to close service stations on Sundays. Similarly, an allocation directive under which refineries would produce less gasoline and more fuel oil would inevitably reduce the consumption of gasoline, as we cannot consume that which does not exist. But it would also cause shortages of gasoline unless, through other measures, the present demand for gasoline is lessened.

A second option to deal with the shortage is rationing. Rationing does not really reduce the shortage, as there will still be more people who wish to buy more gasoline than the supply permits. It will simply make the shortage compulsory—individuals will not be permitted to buy as much as they would like. The appeal of rationing to its advocates appears to lie in the conviction that it would make everyone share equally and equitably in the shortage. If that were a fact, it would be an easy option. But in the real world, the requirements of individuals for petroleum products vary enormously and continuously, and no system of human decisionmaking can cope with all of those variations, even if there were agreement on the criteria, which there is not. What seems fair to one man often seems unfair to another.

A third approach is to eliminate the shortage by permitting prices to rise until demand is reduced sufficiently to meet the supply. Such a price increase might or might not be accompanied by a tax, which I shall discuss in a moment.

Proponents of a price increase argue that even Congress cannot repeal the laws of supply and demand and that the market is the fairest way to eliminate the shortage because it allows people individually to decide what is most important to them rather than leaving that decision to some government agency. One family might decide, for example, that it preferred to have less gasoline and more beefsteak; and another family might decide that it was willing to trade the extra beefsteak for a somewhat more expensive vacation. Each family could make its own choice and would not be bound by the decision of a rationing board that no one would be permitted enough gasoline for an extended vacation. A further argument for price increases is that they will tend to increase the supply of products. In the case of petroleum, a price increase will cause more wells to be drilled and will cause hitherto uneconomic wells and processes to become profitable and go into production.

Those who oppose permitting the market to eliminate the shortage argue that the price increase which would be required to bring supply and demand into balance would be so large that it would be a hardship on many people and, further, that market forces may not operate rapidly enough to prevent critical shortages. For example, they suggest that the market might not operate rapidly enough to insure that households would have enough fuel this winter or that certain businesses would not close down. A further complication arises from the impact of a major rise in petroleum prices on our price control system and the battle against inflation.

Before I turn to the subject of a price increase accompanied by an excise tax, let me call your attention to some data concerning the magnitude of price increases which might be required to bring us up to a free market price.

Table 1, which follows, is an estimate of the price increases which seem likely to occur if prices of petroleum products were freed. The assumptions on which the estimates are made appear on the notes which follow the table. Different economists will make somewhat different assumptions and will, of course, get different answers. I cannot say they would be wrong. There is no way to predict numbers such as this with any precision, and I do not present the numbers to you as firm convictions but only as an indication of the orders of magnitude in which we are talking based upon what seem to be reasonable assumptions. You will note that table 1 indicates somewhat lesser price increases in the longer term than in the shorter term. This is because many of the adaptations to increased prices will be made by people only over a longer period of time, e.g., we could expect higher prices to cause people to purchase smaller automobiles, but everyone will not convert immediately.

Table 2 shows the recent prices of gasoline in other countries compared to the U.S. price. In evaluating those numbers, you should keep in mind that those prices must be paid by foreign workers out of real incomes which are in most cases substantially less than the income of workers in the United States.

Table 3 indicates how these numbers relate to the expenditures of a low-income and an average-income family. You will note that the expenses of gasoline are only a minor part of the total expense of owning an automobile and other transportation expenses. You will note further that retail prices for gasoline (excluding taxes) have in recent years diminished in relation to other prices, so that in a period of increasing prices, gasoline has become, in a sense, a bargain item.

Table 4 illustrates how a 25-cent increase in the price of gasoline might affect the budget of an average family.

Table 5 contains some illustrative prices and price changes of some common food items to provide some perspective as to what the price indicated in table 1 amounts to in terms of recent food price increases.

Table 6 gives us some insight into the extent to which the cost of gasoline is an expense of getting to work. If gasoline should become more expensive, there would, of course, be many people who would minimize that expense by carpooling or by using public transportation.

TABLE 1.—*Estimated impact of emergency supply restrictions on retail prices of gasoline and fuel oil*

Emergency condition	Increase in retail gasoline and fuel oil prices	
	Short term	Long term
Supply reduced by:		
10 percent	8¢/gal.	5¢/gal.
15 percent	12¢/gal.	7¢/gal.
20 percent	15¢/gal.	10¢/gal.

Basic assumptions:

Current (November 1973) consumption of crude and refinery products: 6.4 billion bbls./yr.

Crude prices on which current refinery product prices are based:

Foreign crude	$6.50 bbl.
Domestic crude	$4.15 bbl.
Average	$4.60 bbl.

Retail prices:

Gasoline	43¢ gal.
Fuel oil	22.4¢ gal.

Elasticity of supply, relative increase in flow of oil in response to increase in price, is zero.

Elasticity of demand, relative decline in consumption of oil products in response to increase in price, is:
−.143, short term (1 yr.)
−.229, long term (2 yrs. +)

TABLE 2.—*Average retail prices of gasoline in selected European cities, July 1973*

U.S. ¢/gallon

Place	Service station price excluding tax	Tax	Service station price including tax
Hamburg, Germany	32.2	79.7	111.9
Rome, Italy*	22.9	76.3	99.2
LeHavre, France	26.7	76.2	102.9
Rotterdam, Netherlands	37.4	74.9	112.3
London, U.K	27.8	48.2	76.0
United States	26.8	11.9	38.7

*Gasoline prices were increased on Sept. 30, making prices roughly $1.13 per gallon for regular grade and $1.19 per gallon for premium.

TABLE 3.—*Illustrative expenditures for a family of four*

[Shows annual budgets for four-person families,[1] one at an intermediate level of living, the other at a lower level of living, in 1971. These budgets were derived from Department of Labor publications]

	Intermediate Level		Lower Level	
	Amount	Percent of after-tax income	Amount	Percent of after-tax income
Total budget	$10,971		$7,214	
Consumption	8,626	89.8	5,841	88.7
Food	2,532	26.4	1,964	29.8
Housing	2,638	27.4	1,516	23.0
Transportation (excluding gasoline)	734	7.6	408	6.2
Gasoline	230	[2] 2.4	128	[2] 2.0
Clothing	1,196	12.5	848	12.9
Medical care	612	6.4	609	9.2
Other	684	7.1	368	5.6
Other costs	560	5.8	357	5.4
Social security and disability payments	419	4.4	387	5.9
Personal income taxes	1,366		629	

[1] Weighted average for both owners and nonowners of automobiles.
[2] In the 10 years since 1963, the general price level has increased by about 47 percent while the price of gasoline (excluding taxes) has only increased about 33 percent.

TABLE 4.—*Illustration*

Mr. T lives 10 miles from work and commutes each day by car. During each week, Mrs. T drives to and from the shopping center, 2.5 miles from their home, three times and makes five other trips of 5 miles each taking the children to piano lessons, etc. Mr. and Mrs. T go to the movies 2.5 miles from their home once, to and from the bowling alley 2.5 miles from their home once, and to and from church 2.5 miles from their home once each week. Mr. and Mrs. T also drive 1,500 miles on their vacation and 850 miles on other trips each year. Under these circumstances, if Mr. and Mrs. T's car gets 15 miles per gallon, the following additional amounts would be spent for gasoline if the prices were increased by $0.25 per gallon.

Increased commuting cost per week	$1.64
Increased personal driving cost per week	.84
Total per week	2.48
Increased cost of vacations and trips per year	30.75

If Mr. and Mrs. T were to reduce their consumption by 25–30 percent, they might do so without severe problems as follows:

Carpool for commuting (sharing costs with one person)	$0.82
10-percent reduction in personal driving	.08
10-percent reduction in vacations and trips	3.08
Reduction in cost per week (excluding vacation and trips)	.90

Note #1—Only about 25 percent of the average car owner's expenses of operating his car are attributable to gasoline. Accordingly, a 100-percent increase in gasoline costs will only increase total car ownership expenses on the average by 20 percent.

Note #2—Mr. and Mrs. T may choose to spend the additional amounts on gasoline rather than reduce consumption. It is likely that Mr. and Mrs. T will choose to give up some gasoline for some things and will choose to give up some other things in exchange for gasoline (e.g., a carton of cigarettes a week at $3.04 per carton, a six-pack of beer a week at $1.43 per six-pack, or substitute 3 pounds of hamburger for 3 pounds of sirloin at a reduction of $3.00). With mandatory fuel rationing, Mr. and Mrs. T would not be able to make the substitutions which are the most satisfactory to them; the choice would be made for them by the Government.

Note #3—Illustration is based on driving 10,000 miles per year, which is slightly above the national average based on Department of Transportation statistics for 1970. Lower income groups drive considerably fewer miles on an average.

TABLE 5.—*Increase in average retail prices of selected food commodities from August 1972 to August 1973*

Item	Retail price 1972	Retail price 1973	Increase Percent
Steak	$1.58	$1.86	17.7
Chicken	.41	.92	124.4
Milk	.59	.65	10.2
Eggs	.51	.96	88.2
Bread	.25	.27	8.0
Pork chops	1.26	1.99	57.9
Shrimp	1.18	1.38	16.9

TABLE 6.—*Who commutes to work by car?*

The table below indicates that few lower income workers commute to work by car. Given that lower income people reside in cities and other forms of transportation are available in cities, the percentages are not surprising. For families with incomes over $15,000, 81 percent commute to work by car while less than 20 percent of those families with incomes less than $3,000 commute by car.

Miles driven commuting by money income class

[Money income in thousands of dollars]

Commuting miles per day	<.5	.5–1	1–2	2–3	3–4	4–5	5–7.5	7.5–10	10–15	>15	Average
0*	99.5	87	89	87	76	66	49	36	22	19	41.9
Less than 10	0	2	6	6	12	16	21	23	25	23	20.0
10–20	0	3	2	2	7	8	12	17	21	21	15.2
20–40	0	5	2	3	4	6	11	15	19	24	14.4
40 or more	.5	4	1	1	2	4	7	9	12	13	8.5

*Includes those who do not work.
Source: Survey Research Center, University of Michigan.

Use of an excise tax

An option which has been the subject of recent public discussion is the imposition of an excise tax on crude petroleum or other petroleum products.

It is important to understand that an excise tax, such as an excise tax on crude oil or on gasoline, is in this context only a variation of the price increase option. The essence of the proposal is that prices to consumers be permitted to rise to the point where the shortage is eliminated by decreased demand. Some who argue that this would create a windfall for oil producers then argue for an excise tax to absorb that windfall. That argument obviously leads to other arguments about what is and what is not a "windfall."

From the consumers' point of view, the result of the tax is simply a price increase. The price increase represents a greater percentage of income in the lower income classes than in the higher income classes as do almost all increases in the prices of basic commodities. The price increase might be termed "regressive" although that term is not usually associated with a price increase. However, the effect of the excise tax is to take away the benefits of the price increase from those who own and produce oil. Since those persons are, generally speaking, in higher income categories, the tax is highly progressive. The imposition of an excise tax under these circumstances is to be distinguished from normal excise taxes, which are imposed on top of a free market price. In the latter case, the incidence of the tax is apt to fall on the consumer rather than the producer and is apt to be regressive in some degree.

In judging the desirability of enacting or not enacting an excise tax, the following arguments are often made.

In favor of imposing an excise tax:

- Permits some substitution of political judgments where it is believed that a free market won't respond quickly enough or in a satisfactory manner. It must be noted that this could also be achieved through mechanisms other than a tax, such as allocation.

- Eliminates alleged windfall profits. This, too, might be achieved by devices other than an excise tax.

Against imposing an excise tax:

- History suggests that it is almost impossible to make such a tax a temporary one.
- A tax takes away the incentive for increased supplies which is provided by increased profits, forcing more of the adjustment to be made in demand.
- A tax creates large additional revenues, with twin dangers that withdrawal of large amounts from the economy may be deflationary and that those revenues may not be sensibly used.

As indicated, it is possible to impose an excise tax on only a single product, say gasoline, and not on other petroleum products. If large enough, such a gasoline tax could bring supply and demand for all petroleum products into balance, although some increase in the price of other petroleum products would doubtless occur. In connection with proposals for imposing an excise tax on gasoline alone, the following arguments are often made:

Against imposing a tax on gasoline only:

- Puts the entire adjustment burden on one commodity, producing more severe dislocations than if the tax were distributed more widely. Smaller increases in more commodities are usually more acceptable.
- A gasoline tax has more impact at low-income levels than a tax on crude. (But note that perhaps 40 percent of all families having after-tax expenditures of $6,000 per year or less do not have cars and thus pay no gasoline taxes directly.)
- Provides no incentive to turn down thermostat, insulate the house, turn off lights (as the cost of electricity generated by oil increases), etc.
- A gasoline tax is highly visible, highly resented, and highly emotional.

In favor of imposing a tax on gasoline only:

- Satisfies those who believe private automobiles should be discouraged.
- The public generally acknowledges that much driving is discretionary. (But they also recognize the discretionary nature of other items.)
- Would require a very major price increase for gasoline and should, therefore, have a major psychological effect. One might expect a greater response to a large change in one commodity than to small changes in many, although such an expectation is not based on solid evidence.
- The case for a gasoline tax rests on the assumption that expenditures for gasoline are less essential than for other petroleum products, and that a heavy gasoline tax would have less impact on jobs and production than lesser taxes spread over more products. But note: Some industries would be very hard hit by major cutbacks in gasoline. For example, motels and resorts, and the companies which build them, sell them furniture, food, et cetera, could be severely damaged. Another example: private aviation, the companies which lease planes and own airports, could be similarly affected. Many existing airstrips might be converted to real estate subdivisions, with a permanent loss of airstrips to the communities. Thus, a basic issue would be whether jobs and production would be adversely affected more by large cutbacks in gasoline, or by more modest cuts in a broader range of products.

In making judgments as to the desirability of any tax, additional questions to be considered would include the following:

- If the purpose of the tax were to absorb the windfall to producers, how would that windfall be measured?
- How would a tax be designed so that it would disappear when the windfall disappeared?
- How could the tax be designed so that it did not inhibit or render uneconomical activities which would enlarge the supply of petroleum products?
- How would the Government deal with the very large excise tax revenues which would flow from a tax large enough to "clear the market"? That revenue might well be as much as $20 to $30 billion. Taking that much money out of the economy could be severely deflationary. Even if it were expended by the Government for desirable projects, there could be a substantial lag between the time of tax collection and the time of revenue expenditure.

- Should some portion of tax revenues be rebated to consumers? If so, what kind of system would be required to dispense relatively small amounts to millions of families? Would the system have to make the same kind of decisions as a rationing system as to what families were entitled to what benefits?
- Would some other form of tax, say an excess profits tax, be better suited to absorbing the windfall if it should be determined that a windfall exists? Would it be possible to devise an excess profits tax which would operate more satisfactorily than previous excess profit taxes, which were notorious for their complexity, inequity, and inefficiency?

It should be apparent from the simple recital of these many considerations that the use of a tax or taxes to eliminate or ameliorate the present shortages is an extraordinarily complex matter, with major long-range implications.

Long-term considerations

In the long term, we must learn to accommodate to the laws of supply and demand. If energy resources grow scarcer, increased prices should provide an incentive to develop other sources of supply, and should render economic operations which are not presently profitable. Already, we are told, the prospect of higher prices has occasioned much greater exploration and development activity. Even in the relatively near term, the experts foresee an increase in production from properties which have hitherto been uneconomical and from processes such as secondary recovery. At some point, processes such as production of petroleum from oil shale may become profitable and come on stream.

The tax law presently provides incentives to the discovery and production of petroleum through the provisions for percentage depletion and for the immediate writeoff of intangible drilling costs. In April of this year, the Treasury presented to the Ways and Means Committee of the House proposals for tax change which would rechannel some of the incentive now provided by the percentage depletion provisions into a new tax credit for exploratory drilling. While the proposals in question were in part a response to certain tax reform goals, they were also intended to provide a more efficient incentive for the discovery of new reserves. Also included in the April proposals was a proposal which would lessen what seemed to the Treasury to be an undue tax benefit permitted under existing law with respect to foreign drilling. That proposal, if enacted, would tend to lessen the incentive to drill abroad.

We believe that those several proposals are timely and will be helpful in the search for new energy sources. However, the greatest incentive to energy development will continue in the future, as in the past, to be the prospect for profits provided by a free and efficient market. The opportunity for a taxpayer to save 5, 10, or 15 percent of his profits through tax benefits is of small moment if there are no profits in the first place.

While I have talked today almost exclusively about petroleum products, we are all aware that they are only a part of the total picture. In the search for other energy sources, as in the case of petroleum, however, the basic problems are not tax problems and are not susceptible of tax solutions. But we must remain alert to see that our tax laws do not inhibit solutions and to ensure that they are adapted, where appropriate within the context of the total tax system, to facilitate solutions. We shall be pleased to work with your committee to that end.

Exhibit 43.—Remarks of Assistant Secretary Hickman, October 2, 1973, before the House Ways and Means Committee, concerning pension legislation

I do not have a formal written statement this morning. I had not anticipated that we would be asked to make a formal presentation. I said yesterday afternoon when the invitation came that I would be glad to appear but that it would be necessary for me to speak from notes.

This area is an area in which reform is badly needed and long overdue. This administration has pushed for reform in two Congresses in respect of those provisions which relate to the tax laws and in three Congresses in respect of those provisions which relate to the fiduciary and disclosure matters.

In broad outline, the bill, as it came to you from the Senate, conforms to the administration's recommendations. We are pleased to see it, and we can enthusiastically support the intent of most of it. We are pleased to see that it is moving along briskly in the legislative process.

We applaud the sincere efforts and hard labor of the many people in Congress in both the Labor and tax-writing Committees who have spent so much time on this very complex matter. However, despite our pleasure in the fact that the bill is moving along with rapidity, we are very concerned about the literally hundreds of technical difficulties in the bill as it is presently drafted.

It is the best drafted and most comprehensive of those bills dealing with this subject presently available, but it is riddled with errors. That is not, I hasten to add, anyone's particular fault. It is the result of the fact that it moved through the Senate very quickly. The technicians concerned thought they knew what the Senate intended generally, but there was simply not sufficient time to work all of these technical problems out.

The Treasury had more than 100 technical corrections in the bill—not things that went to substantive policies, but just things that went to clear up, for example, provisions that were contradictory and were never intended to be such. None of those got into the bill as it came to you from the Senate. We now need to digest the Senate bill, to hear from taxpayers, and to iron out the technical problems which we know are there and which we are sure the taxpayers will find when they try to apply the provisions of the bill to their own particular situation.

After all of the years of hard work which have culminated in this bill, we believe that it would be disastrous if the failure to spend a few extra weeks should result in legislation with defects which will plague us for years to come.

You have asked me today to give Treasury's position on the Senate bill, and I intend to do so in broad terms. We have had this 296-page bill, like the public, for a little over a week. We are not yet finished with our analysis of even some of the fundamental points in the bill, to say nothing of the so-called technical problems. Thus, some of what I have to say today has to be tentative.

H.R. 2 as amended and H.R. 10489, bills introduced by members of the Labor Committee, we have not had an opportunity to analyze at all, although it does appear that H.R. 2 contains many elements of the earlier S. 4, reported by the Senate Labor Committee and ultimately melded into the present Senate bill.

The entire subject of pensions is inextricably intertwined with taxes. Our present system is shaped by provisions in the Internal Revenue Code which give and withhold tax benefits. Only a small part of the pension system exists outside of these detailed provisions of the Code. An expert staff has developed in the IRS to administer these provisions, and a very large corps—lawyers, accountants, actuaries—has grown up in the private sector to assist the public with the tax details of the present pension system. Virtually all of the provisions of the Senate bill deal in one way or another with tax provisions. Some of the provisions, such as those relating to fiduciary duties and to reporting and disclosure, lie primarily in nontax areas, within the jurisdiction of the Labor Department rather than the Treasury. Even there, however, tax aspects exist and must be dealt with.

We support the basic approach of retaining primary administration of the pension system in the Treasury and in retaining the jurisdiction and expertise of this committee in the legislative process. At the same time, we recognize that there are certain aspects which are more fundamentally the concern of the Labor Department, and we believe that cooperation between Treasury and Labor is both necessary and desirable to an effective overall system.

Before I comment specifically on the substance of the bill, I would like to make a substantive comment of overriding importance.

In a voluntary system, excessive new requirements can produce fewer, rather than more, benefits. The pension system is voluntary. We have made it attractive by providing very substantial tax benefits.

We cannot and should not force people to grant pensions. We are in this bill proposing to add new requirements which must be met in order to qualify for the tax benefits. Many of these requirements will be expensive—in some cases, for some employers, onerous. Money which is spent in meeting these requirements will tend to result in lesser pension benefits than now exist or than would otherwise exist. If we go too far in striving to impose the perfect pension on everyone, the inevitable response will be the wholesale termination of plans, the reduction of benefits, and the drying up of new pension plans. A reasonable balance must be sought in order to avoid these counterproductive results.

It does not advance analysis in this area to say that more benefits are better than less. We all agree on that.

The two important questions are:

First, how much additional cost can we realistically expect employers to absorb without reducing benefits or discouraging the creation of new plans for the 50 percent of our work force which have no plans at all?

Second, how can those increased pension costs be most effectively spent? Where do we get the most mileage from the dollars that are spent?

If I may, before I move into the specific provisions of the bill, I should like for a moment to call your attention to several basic facts which I have here on the board and which need to be kept in mind as we deal with these plans.

Charts—relevant data

The first chart is a chart of historical data which shows over a period of 30 years, from 1943 to 1973, in the first column the increase in consumer prices, in the second column the increase in manufacturing weekly wages, and in the third column—just to bring it down to something close to home—the increase in congressional salaries.

CHART 1.—*Historical data*

	Consumer Price Index	Manufacturing weekly wages	Congressional salaries
Year:			
1943	100	$43	$10,000
1973	261	$165	$42,500
Rate of growth compounded—percent	3	4.6	5
Projected to 44-year career span (1987)	395	$310	$84,146

What the chart illustrates is that over extended periods of time there are very substantial dollar increases in compensation attributable to the general inflationary bias in the economy plus the increases in real wages that have occurred. When we begin to deal in terms of dollars that will relate to the pension that a man is to receive 44 years after he enters the work force at age 21, we must take into account that the dollar compensation that we are talking about now, if present trends continue, will be very much smaller than the dollar compensation on which he will be living at the time that pension becomes effective.

This basic consideration flows in and out of most of the technical problems we have in the bill. You will see in the Consumer Price Index, for example, that over a 30-year period we have gone from 100 to 261, which at a compound growth rate is roughly 3 percent. If we project that out another 44 years, so that we are talking about the normal career span of an employee, we get up to 395. Similarly, in the case of average weekly manufacturing wages, we have grown from $43 to $165 per week in that 30-year period, which is a compounded growth rate of approximately 4.6 percent. The present dollar amount will nearly double in the next 14 years.

Roughly the same thing has happened in the case of congressional salaries. They have gone from $10,000 in 1943 to $42,000 in 1973, which is a growth rate of 5 percent and is pretty much the same as the growth in the manufacturing weekly wages. You get a somewhat different number depending on what year you start, and this chart perhaps indicates a greater growth rate in congressional salaries than you would get if you started somewhat earlier, because 1943 was the last year of a number of years at $10,000 and these congressional salaries needed to catch up even at the beginning of this period in 1943.

In any event, the point is that if you had started out as a Congressman at age 21 in 1943 and you expected to stay until age 65—for a 44-year period—this normal growth would carry you from $10,000 to $84,000. If you were then putting limits on pensions, you would find it unrealistic to deal entirely with pensions that were geared to a $10,000 salary when you knew that you were going to end up with a much higher rate of pay than that, just by natural economic forces.

This second chart is a chart which is just mathematical.

CHART 2.—*Compounding factors*

Years	3 percent	5 percent
5	$1.2	$1.3
15	1.6	2.1
25	2.1	3.4
35	2.8	5.5
40	3.3	7.0
44	3.7	8.6

It illustrates compounding factors. It shows you how at these rates of interest a dollar will grow over this span of years. You will see that at a 3-percent rate an original dollar grows from $1.2 after the fifth year to $3.7—nearly four times—over a normal career span, just from the normal inflationary bias in the economy.

At a 5-percent interest rate, growth is much faster, from $1.3 after 5 years up to $8.6 after 44 years. So, if you are compounding at the rate of 5 percent over a 44-year span, you multiply the original dollar nearly nine times.

Chart 3 illustrates what that means when you translate it into terms of people who are entering the economy today.

CHART 3.—*Projected annual earnings starting work at age 21; $7,000 pay*

	With no increases in skill levels (5 percent)	With 3-percent increase in skill levels (8 percent)
At entry in 1973	$7,000	$7,000
After:		
10 years	11,402	15,112
20 years	18,574	32,626
30 years	30,256	70,440
44 years	59,905	206,896

If a worker comes into the economy at a wage rate of $7,000 in his first year and if we assume the 5-percent general increase in wage levels—that is, a combination of the increase in real wages and inflation—that man can expect, if those rates continue, to go from $7,000 in 1973 to $59,905 when he is 65 years old.

I give you these figures because they are so astounding. Almost everybody has a first reaction that it is unrealistic to suppose that somebody who starts now at $7,000 will in 44 years be earning $59,000. But that is in fact what has happened and what we can realistically expect to continue to happen if our economy continues to operate in the future as in the past.

This kind of figure describes the situation of an individual only if his income rises in accordance with normal inflation (if normal inflation at this point is 3 percent) and with the growth of real wages. But the normal person is also increasing his skills. Hopefully, he will be worth more after 20 or 25 years than he was when he started out. So that you then have to add, for the normal individual, an increase in skills onto the increase that is produced by general economic factors.

We have assumed in the last column a 3-percent increase in skill levels. We got that figure not because there is any one true increase, but because it is the rate of increase which would occur today in the case of a professional who enters the civil service at the bottom of grade 7 and goes to the top of grade 15, which is not abnormal for somebody who is on the ball, so to speak, and would be the kind of progression which, at least in today's values, would be at least not an abnormal skill progression for people in that category. If you add this compounding factor for somebody entering the working force in 1973, you find he ends up 44 years later with over $200,000. I know that is an astounding number, and we all think it is unrealistic; but we are looking ahead 44 years and that is a very long time during which these economic forces and percentages will be working.

Thus, as you consider this entire problem of pensions, you must keep in mind that the wage levels are rising and that you are planning ultimately for pensions that will be geared to what the man is earning at the time he retires, and you will only be fooling yourselves if you close your eyes to that fact.

Chart 4 illustrates another point which is important to keep in mind. It is that pension costs—the whole problem of vesting, portability, et cetera—are very much affected by so-called turnover rates.

CHART 4.—*Turnover is typically faster for younger workers*

At this age	This percent of workers might terminate employment each year
20	12.5
25	11.3
30	9.0
35	5.4
40	2.5
45	1.2
50	0.5

Source: Medium Turnover Table, A. S. Hansen Co. *Study of Pension Plans* (1970).

I would say to you frankly that nobody has a very good turnover figure. There are no official statistics. This is a medium turnover rate by one of the leading actuarial firms in the country, the kind of thing they use for their planning as representative of a medium situation.

You will see, as you would expect, that the turnover rate is much greater among the younger employees than it is among employees who are older. The younger employees are coming in, taking temporary jobs, getting trained, and doing things in their earlier years—things which they will go beyond in later years. They are experimenting in their youth and have less financial constraints to tie them down. All of this contributes to a turnover rate at age 20 of 12.5 percent, which goes down to 9 at age 30 and then drops off rather significantly.

In the young age groups there is a very substantial amount of churning, people coming on to jobs and leaving jobs. This is an annual rate, so that each year there is this kind of turnover in these age groups. You have an almost complete turnover in the span of a relatively few years. That basic fact comes into play as we talk about some of the vesting and portability rules that we have proposed and that have been modified by the Senate.

The Senate bill

Let me now turn to the specific provisions of the Senate bill. I will give you our general comments on them. I will not try at this point to get into all of the technical details. I would say to you, however, that many of the things that are called technical are in fact very substantive in nature and may cost a given employer thousands or hundreds of thousands of dollars and have a very big effect on the operation of the system.

All of these things in the last analysis need to be carefully considered. The fact that I do not today spend time on them does not mean that they are not important. It just means that we can't cover everything today, and in many of the so-called technical areas we are not yet prepared to tell you how we think the system would best operate.

We would hope to make our views known from time to time as the subjects come up because, of course, it is important to be sure that these things really work.

Participation.—The first part of the Senate bill deals with the subject of participation. This has to do with the point in time at which an employee belongs to the plan, and at which the clock begins to run on his benefits.

We do not, in general, take exception to the Senate rules. They are somewhat different from those that we propose. We feel that on balance they are acceptable, but I would caution you that, again, we are looking at an overall package which we must weigh in the balance.

It is very easy to take each of these components and say, "Well, that is just a tiny change and we don't really object to that particular tiny change." But when you add all of these things together in the scale—all of these tiny changes that one is tempted to make—you may find that you have made a very major change on balance, which may be a serious deterrent to new plans and to the expanded coverage of existing plans.

Vesting.—Vesting is an area in which there has been a good deal of technical argument. We think the Senate bill goes a long way toward a better vesting rule.

There is at the present time no vesting rule of uniform application. What in fact happens is that the Internal Revenue Service in the various regions and districts around the country seems to have devised different vesting rules according to their regional notions of what is and is not fair. We think that is a very undesirable situation and that the rules should be uniform.

We do feel, however, that the Senate vesting rules, which are in total impact comparable to those which we proposed, are inefficient in the way in which they spend the increased pension costs. Vesting costs money. There is an employer cost to it. The question is: Where do you get the most mileage for the dollar of additional cost that you are imposing on the system? We believe that the rule of 50, which we proposed in our original bill, is a preferable vesting formula. We believe that it spends pension dollars more efficiently where they are needed most. It tends to create more pension dollars for those who are older—and one must remember that ultimately people do become older—and it helps those who change jobs. People who change jobs frequently leave behind them accrued pension benefits. That is what we are dealing with when we deal with vesting.

The Senate formula tends to give amounts which are individually not significant to a very large number of employees, at a time when they don't need it and won't use it for retirement. The rule of 50, on the other hand, concentrates those same dollars of pension costs on older workers who are closer to retirement and who need it and will use it for their retirement. Since the younger workers eventually become older, they, too, will share in these benefits at a later point in time. I will take you through a couple of charts that illustrate some of these basic points.

Chart 5 illustrates the kind of thing that happens under the Senate bill. It is, in part, a function of what I was showing to you earlier about the very large increase in dollar incomes between the time a man enters the work force and the time he leaves at age 65.

CHART 5.—*Senate rule often vests insignificant benefits*

Age at hire: 21 Age at termination—	Years on job as percent of 44-yr. working life	Pension as percent of pension if worked to age 65	Lump-sum payment
31	23	18/100 of 1	$35
35	32	1.7	414
37	36	3.6	1,010

Assumes: Pay $7,000 at age 30—5 percent growth.
Plan: 1½ percent high five pay per year of participation.

What we see here is that under the Senate rule, for example, if you have hired a man at age 21 and he terminates employment at age 31, he would have spent a total of 10 years on the job, which is 23 percent of his total working life. Yet, the pension in which he would be vested under the pension rule represents only eighteen one hundredths of 1 percent of the pension that he would have received if he had stayed with that employer to age 65. If the man leaves, even after a period as long as 10 years (but nonetheless 34 years from retirement) and he is working at the lower wage levels that relate to those earlier years, he is going to take away with him, no matter how you vest it, only a very small amount of money.

That eighteen one hundredths of 1 percent ends up as a lump-sum payment of $35. That is not even cigarette money. It will fund about a pack every week. So that realistically one cannot expect that kind of employee to leave the $35 on deposit with the employer, and you can't expect the employer to erect elaborate bookkeeping devices to keep track of it.

It is simply not a significant amount, partly because the employee's income levels in these early years are so much smaller than his income levels later in his career. Nonetheless, if you pay out $35 a year to all of those young people who are constantly turning over, as we saw back on chart 4, you are going to pay out a very large amount of money.

What you are doing is paying a large amount of money for benefits that are not significant to the people who get them, and which do not end up in the pension system in the end.

You see that the same thing occurs in attenuated form as you get out even to ages in the high thirties. At age 35 he has been on the job nearly a third of his working life, and the pension that would be vested under the Senate rule is 1.7 percent of the pension that he would have if he worked to age 65. It is worth in lump sum $414. He would pay a tax on that when it was distributed. It is conceivable, I suppose, that a man who is 35 years old with a wife and children and installment payments and a house and groceries, et cetera, would in fact stow $414 less tax away for his retirement, but it is doubtful.

The same thing happens at age 37. He spent 36 percent of his working life but he still has a very small amount of the total pension he would have if he stayed. He comes out with a lump sum of $1,010, on which he would have to pay tax. In working these numbers out, we have assumed a generous pension plan, so that these numbers are on the high side of the range of what one might expect.

What you see happening here is that it is the later years of a pension system, as applied to a particular individual, which result in most of the pension that he is paid. That is because wage levels have risen for him so considerably during those later years. He needs to have a pension geared to the ultimate earnings that he has at the time of retirement. What happens at the earlier, the much lower, salary levels is really not very significant.

Chart 6 that I have illustrates that the rule of 50 assists those workers who change jobs.

CHART 6.—*Rule of 50 assists workers who change jobs*

Over career (age 21 to 65) employee works at each job—	Actual pension at age 65 as percent of pension earned without changing jobs	
	Senate rule	Rule of 50
4 years (11 jobs)	9.0	22.5
6 years (8 jobs)	15.8	30.0
10 years (5 jobs)	30.2	47.0
15 years (3 jobs)	62.7	60.1

Assumes: Pension benefit is 1½ percent of final 5-year salary per year of participation.
5 percent annual salary growth.
6 percent interest.
Participation at minimum of age 30 or 1 year service.

Here again, we have tried to put these data in money terms. We have assumed four different situations. We have an employee who has worked 4 years at each job so he has 11 jobs, and an employee who worked 10 years and has 5 jobs, and an employee who worked 15 years and has 3 jobs.

Obviously, people don't change on regular intervals of that sort, but it gives you an idea of how the numbers work out. The numbers in the columns would change somewhat, depending on the exact terms of jobs you use, but the general principle would be the same.

The chart shows the percentage of the pension earned at age 65, the actual pension that he would get at 65, as a percentage of the pension which he would have earned without changing jobs. So we are indicating here the penalty that the system necessarily puts on people who change jobs.

You will see that, no matter how you slice it, the man who changes jobs comes off a lot more poorly than the man who sticks with one job for his entire working career. The question is: How do we bring those closer together?

In the situation in which the man has had three jobs, even then he ends up with about 60 percent of the pension that he would have had if he had stayed on the same job. He loses benefits by moving from employer to employer, in large part because his years of service with prior employers relate to lower salary levels, while if he had stayed with a single employer, he would get credit for all years of service in terms of his final salary levels.

You will also see that the Senate rule for the man who has been a frequent job changer gives him only 9 percent of the pension he would have had if he had stayed on in that same job until age 65, whereas the rule of 50 gives him 22.5 percent. That is still perhaps not enough, but it is a lot better than 9 percent.

Again, for the man who has changed jobs every 6 years, he would get under the Senate rule only 15.8 percent of the pension which he would have earned if he had stayed on the job, whereas under the rule of 50 he gets 30 percent.

Similarly, down here for the man with five jobs over his career, he would get 30.2 percent under the Senate rule and 47.0 percent under the rule of 50.

So the rule of 50 provides a significant greater pension for the man who has changed jobs and for the older worker who needs that protection the most by minimizing the degree to which the natural working of the system tends to cut him back.

Now, you will see that in the last case, the rule of 50 turns out to be not quite so good as the Senate rule for the man who has changed three times. The comparison is about 63 percent and 60 percent, respectively. Chart 7 illustrates that such minor variations are a result, in substantial part, of what assumptions you make as to how many years he actually held which job.

CHART 7.—*Relative percentage will change slightly with different job span assumptions*

Job No.	Three jobs with durations of:—	Actual pension at age 65 as percent of pension earned without changing jobs	
		Senate rule	Rule of 50
1	15, 15, and 14 years	62.7	60.2
2	4, 20, and 20 years	73.3	73.3
3	24, 10, and 10 years	49.8	57.7

If you change the assumptions with respect to those three jobs a little bit, you get slightly different numbers. But, in any event, they are not too far apart under the Senate rule and the rule of 50. In the second case on this chart, they are the same. In the first, which is the same case we saw on chart 6, the Senate rule is better. And the last case is one where the Senate rule is not quite so good as the rule of 50.

So, for all of these reasons, it does appear to us that the rule of 50 provides a more efficient vesting formula. It helps the people who change jobs, and it does that because, as people get older, under the rule of 50 they are practically sure to accrue something, whereas under the Senate rule it doesn't make any difference whether they are old or not. So, at some point in his career, we tilt the scale in favor of the older worker and see that he comes out with something. Since everybody ultimately gets older, everybody ultimately shares in that kind of a formula.

Now, one of the criticisms sometimes made against the rule of 50 is that it discriminates against the hiring of older people. We say to you categorically that that is not true. We have had a great deal of difficulty in getting across to people why it is not true. But it is not true.

I will try once again to tell you why it is not true. It is that the older worker is more apt to stay on the job. We saw in chart 4 that the turnover rates are less in the case of the older worker than in the case of the younger worker. Therefore, the cost of vesting—which is the cost of dealing with those people who leave—is much less in the case of older employees than it is with younger employees. However, the cost of the basic pension is much greater in the case of older employees, assuming it is a defined benefit type of plan (i.e., a plan stated in terms of the employee's getting so many dollars out when he retires, as distinguished from a "money purchase" plan, which is stated in terms of how many dollars the employer puts into the plan with the ultimate benefit simply dependent on what that contribution is worth when he retires).

So, chart 8 shows the difference in the cost of the pension for an older employee and a younger employee.

CHART 8.—*The rule of 50 does not promote age discrimination in hiring*

Age at hire	One-time cost per $100/year pension	
	Zero vesting	Rule of 50
55	$570	$585
35	125	155
Extra pension cost of hiring older man	445	430

Assumes: Straight life annuity—male, 5 percent interest.
Typical turnover rate declining with age.
Immediate participation.

The first column shows the cost of the basic pension. It is a $100-a-year pension for each year of service. If the employer provides a $100-a-year pension, as some of the major corporate plans do—one of the very largest ones has that kind of benefit—that will cost, at age 55, $570. That is because that money is at work for only a few years. But in the case of an employee age 35, the cost for that employee's benefit is $125.

So, when you are talking about age discrimination, there is very substantial age discrimination built into the mere system of pensions. I don't think we should throw pensions out because of that, but it is a fact of life.

The cost of vesting, however, is less in the case of the older employee, because he is less likely to leave, than it is in the case of the younger employee. You will see that in the chart. In the case of the employee aged 55 with zero vesting, the cost of the initial pension is $570, but the incremental cost of vesting is only $15 more—$585 compared with $570. In the case of the younger employee, the pension itself costs much less, $125, but, because he is much more apt to leave and therefore to have a vesting cost—because vesting is the cost that the employer pays for people who leave—the incremental cost is $30. So that you have gone up $15 in the case of the older employee on account of vesting and $30 in the case of the younger employee.

What has actually happened is that the extra pension cost of hiring an older man as compared with the fellow 35 has decreased by using the rule of 50 from $445 under zero vesting to $430 under the rule of 50.

That is a slippery, hard concept to get hold of. But it is a fact that the rule of 50 does not discriminate on an age basis because the older people are much less likely to leave and therefore the cost of vesting, which is the cost of leaving, is less.

The last chart I should like to take you through while we are on these basic aspects of vesting and participation relates to the question of whether or not there should be a permissible exclusion from participation for older workers.

CHART 9.—*Pension costs could prevent hiring after age 60, unless exclusion permits*

Age at participation	1½ percent of final pay per year of participation		50 percent of final pay (10-year minimum with proration)	
	Monthly pension	Cost as percent of pay	Monthly pension	Cost as percent of pay
32	$413	4	$417	4
62	38	12	125	40

Assumes: $10,000 pay—6 percent interest.

What the chart shows is that there are situations where, because of the high cost of pension plans—not vesting, but pension plans—if you require participation for people who are close to retirement, you will be able to provide the pension only if the employer puts in a lot of money, because that money has such a short period in which to grow and compound.

Under the various assumptions in chart 9, there are very much higher pension costs for older people than for younger people. In the kind of plan shown on the left, the cost of putting a man 62 in the pension plan—of his participating at all—would be 12 percent of his pay. In the kind of plan shown on the right, which is not an unusual kind of plan, that cost could rise to 40 percent of his total pay.

At this point, one has to make one of these difficult judgmental decisions about whether or not it is more important that the man should have a theoretical pension right or that he should work. We say to you that is a tough question and nobody likes it because both of the answers are unattractive. But we believe that it is more important, when you get to that point, that the man be able to have a job than that he have the pension right, because he wouldn't get a pension anyway if he doesn't get the job.

Under those circumstances, we believe that something needs to be done as you reach the employee who is at an advanced age, for whom the cost of providing the pension is very large. Otherwise he will not, in fact, get hired.

Retroactive vesting.—So much for the type of vesting rule. There is another feature of the Senate bill about which we have some considerable concern. It is that the Senate bill vests benefits for periods prior to enactment. This creates for many employers and plans a very large, one-shot expense. In the aggregate for all plans, it roughly doubles the expense of the vesting provisions.

It is true that very many plans already have employees covered by equal or better vesting rules than those in the Senate bill. The Senate bill will not increase their vesting costs. But there are a very large number of plans where that is not true. Many of these are multiemployer plans which exist in declining industries and which presently have very high turnovers in the labor force and very low vesting rules. The Senate vesting provision would be retroactively applied to benefits accruing over as much as 30 to 40 years, during which the parties were led to understand that they had no such commitment. If such employers now, all at once, find that they have that extra liability, it may be that there will simply be plan terminations. There will certainly not be new plans or increased benefits for this kind of employer.

So that one again has to weigh what you are taking away from people in terms of overall benefits against what you are giving to a few people in the form of vesting benefits. We are concerned that the coverage retroactively, all of a sudden, of periods of 10, 20, 30 years into the past and the imposition of liabilities with respect to those periods as a condition to continued operation in the future, will be the kind of thing that will cause the collapse of a number of plans. We think, under those circumstances, it would be better to be a little less Draconian and have a few more benefits.

Excise tax on vesting.—A third aspect of the Senate provisions on vesting is an excise tax on vesting. I am frank to say we do not understand it. Because we don't understand it, we oppose it. It doesn't, as we see it, respond to a known problem. As near as we can tell, it is a solution roaming around, hunting for a problem.

What it says, in effect, is that whenever a plan provides less than the plan provides, then a stiff tax is imposed on the difference. It just makes no sense. We think it should come out. It is inappropriate in the vesting area.

Uniformity of vesting.—I next turn to an aspect of vesting which we believe to be of major importance, which is the uniformity of vesting. As I have said to you, the Internal Revenue Service now operates with a myriad of vesting rules applied largely at the whim of a myriad of personnel around the country. This bill would be a major step toward uniformity and, in that respect, very desirable.

It is not entirely clear from the Senate bill—at least it is not clear from the committee report—whether notwithstanding these uniform vesting rules there might be a different and higher vesting rule which the Service could seek to apply in particular instances. We think that is getting right back into the frying pan which we thought we had left.

The argument is that if you have a situation in which there is a very high turnover rate among the lower paid employees, then if you don't vest them faster, you are discriminating against lower paid employees. But the fact is, as you saw from the charts, there is always a high turnover rate among younger workers, who are, in most cases, the lower paid employees, so that you have this situation in any business.

The question, then, becomes: Is there some point at which the turnover rate for the lower paid employees becomes so great and they are so transient that somebody should give them a benefit that other employees don't have?

We think not. We think it is important that this uniformity concept be written into the law clearly. There is no reason why a transient employee should get better vesting in one company just because it happens to have higher turnover than he would get if he went to a company which did not have higher turnover.

If an employer fires an employee in order to prevent vesting, we think that ought to be stopped and the requirement that such an employee be vested is a necessary remedy. We think that ought to be clear in the committee report.

There are also situations where a high turnover rate causes many forfeitures in the plan. Everybody participates but few stay long enough to collect, so the forfeitures end up being an unduly high benefit for those who remain or for those who are the higher paid employees who run the company. We think that, too, is undesirable. But the solution, we believe, in that kind of a case is to limit the undue benefit—to see that the forfeitures don't operate in that way. The solution is not, in our view, to create a new windfall for the transient employees who happen to be coming in and out.

We do believe that employees should be treated alike and that transient employees in one company, in the absence of outright discrimination, should not be treated differently from employees in another company.

Funding.—Funding is another major topic covered in the Senate bill. This is the process by which plans are required to put away in cash, money sufficient to meet their obligations. It is very important to the overall solvency of plans. Again, it is something that needs to be done gradually because a one-shot liability that must be met today and is very large may sink the company and the plan, which would be to no one's benefit. So that over a long pull, we have got to get better rules about funding for the plans that do exist.

The administration bill proposed more stringent funding requirements than the Senate bill to be applied to unfunded liabilities. But those more stringent rules had to be considered in the light of the fact which I just adverted to, that the administration bill would require vesting of accrued benefits only from the date of legislation. So, while the rule was more stringent, the base to which it was applied was less.

The Senate bill vests benefits accrued prior to enactment, so the base to which the funding rules apply becomes much larger. That sharply increases the total amount of unfunded liabilities which must be funded.

We believe that the administration funding rule in combination with the Senate vesting rule would indeed be too stringent in some cases. Therefore, at least for the moment, if the Senate vesting rule is to prevail, then we think the Senate funding rule should also prevail.

If you should elect to change the vesting rules in respect to postenactment and preenactment coverage, then we hope you would give consideration again to the somewhat tighter funding rules which the administration had proposed.

So, taken in balance with the vesting rules, we see no particular problem with the Senate version of funding. I say we see no problem at the moment, but there has been insufficient time for intelligent reaction from the public on this score. These are very complex actuarial computations, and they will need to be studied by the actuaries in each company, with each plan, to see whether they create unanticipated problems.

We are frank to say that we don't know where all the problems lie, and we are sure we will be educated as taxpayers come to talk to us.

H.R. 2 has still another rule, which the committee may wish to consider but which we have frankly had insufficient time to study.

Prohibition against nonqualified plans.—Next is the prohibition in the Senate bill against nonqualified plans. We are strongly opposed to this provision. The typical nonqualified plan is simply an unfunded plan. An employer agrees to continue the salary payments of his employees after retirement. It may be a small company and he has no funded plan. Often such an employer, as a matter of course, when somebody retires continues his salary or some portion of it. Hundreds of thousands of citizens are retired under such circumstances.

The bill would simply forbid it. It would require, among other things, that the Secretary of the Treasury get an injunction against such payments where they exist. It is one thing to deny tax benefits for plans which do not qualify, but it is senseless to cut off existing pensions for deserving citizens who will not otherwise get them. This provision seems to proceed on the assumption that half a loaf is worse than no loaf. We don't think that is a basically unsound assumption.

The portability fund.—We believe the portability fund is unwise and we oppose it. While it is voluntary and therefore basically harmless, we believe it is cumbersome, costly, and of little practical utility. It is, in fact, a bank, a receptacle into which people may place their vested credits—the $35, the $414, that we saw in earlier charts—and leave them in the pension system if they desire. That is all right. But we have another technique for doing it which we think is better.

The portability fund seems to us to be just another bureaucratic institution added to the tangle that we already have.

Termination insurance.—Termination insurance is a fundamental and highly publicized aspect of the bill. We strongly oppose the Senate provisions with respect to termination insurance. That does not mean that we are callous to the problems which the termination of unfunded plans may create for employees. We agree that unfunded plan terminations create serious hardship for the employees affected. It is often, indeed, a personal tragedy.

In 1973, 8,450 employees, or four one-hundredths of 1 percent of a covered work force of some 23 million employees, suffered some loss of vested benefits. Termination insurance would help *some* of those people to *some* extent. Such benefits must be balanced against the disadvantages which will adversely affect many employees, employers, and plans. If a single firm with 10,000 employees fails to establish a plan because its credit position will not permit it to withstand the liabilities associated with termination insurance, the loss to employees will be greater than the 1973 losses from unfunded terminations.

The central dilemma with respect to termination insurance revolves around the problem of employer liability. As to existing plans, the bill would impose a substantial, unbargained-for and hitherto unforeseeable direct liability on employers to guarantee the predicted pension benefits. This is particularly serious and perhaps even unconstitutional where the bill's new minimum vesting standards substantially and voluntarily increase the vesting liability.

So, all of a sudden, you not only have increased liabilities for the funding and vesting of the plan, but you also, at the same time, have an absolute retroactive liability for vested amounts, which you never had before.

One of the disturbing and most troublesome aspects about that liability is that new liabilities may have to be booked—at least for weak employers where the danger of nonpayment is significant—which would, in turn, trigger defaults in trust indentures and bank loans, creating business contractions and insolvencies, and unemployment for the very workers the plan seeks to protect.

So that, again, one can easily fall into a very counterproductive situation if the booking of the liabilities, in fact, leads to the demise of the company.

There are special problems with respect to employers in multiemployer plans, who have hitherto agreed to pay a certain amount of cents per hour of work. It has previously been a widespread practice for employers to pay a certain amount of cents per hour into a common fund. It appears under the bill that employers under those agreements, who never agreed to paying more than, say, 10 cents an hour, may be liable if indeed the 10 cents fails to purchase the hoped-for benefits from the fund. So that such employers would now be directly and individually liable for pension commitments made on the basis of fallible actuarial expectations by union-management actions in which the individual employer had maybe one vote and maybe no vote at all.

If, for example, you have an industrywide contractors' plan, with thousands of employers in it who agreed to put 10 cents for each hour's work into the plan, each one of those employers will be liable to the plan if it fails to produce the benefits which the plan told the employees it would like to provide.

As to the 50 percent of the work force which still has no pension protection, such employer liability will deter the establishment of new plans. If plans are to be established, the termination insurance provisions will deter the establishment of defined benefit types of plans, which favor the older employees.

Note that it is not the premium that is the disturbing thing. It is that underlying the premium is the fact that the employer is liable for the full amount by which the plan falls short. The insurance company recovers its liability back from the employer, if he has assets to pay it.

Within recent days a proposal has been put forward which would provide termination insurance through a plan with private elements, which would replace the Government corporation provided in the Senate bill. Preliminary analysis shows this, too, has major drawbacks. However, we believe the committee should take time to consider whether this insurance, if it is to be done, can be better provided by an existing industry rather than a new Government bureaucracy.

Reporting, disclosure, and fiduciary aspects.—In respect of reporting and disclosure, the thrust of the Senate bill follows the proposals which this administration has advanced on three separate occasions. Accordingly, we favor them. However, the Senate did make some technical changes in those proposals. As we go through these portions of the bill, we will have suggestions which we hope you will take into account for technical changes in the Senate bill. We are working on this now and have not yet finished our analysis.

In respect of fiduciary standards, the provisions of the bill again follow the administration's proposals and, on the whole, we do not object to the technical changes that have been made. We believe these matters are primarily the concern of the Department of Labor, but there are aspects of them which do affect taxes. Again, we are studying them and will have comments.

Administrative aspects and the "head tax".—In respect of administrative aspects, the bill provides for a new branch of the IRS and a new Assistant Commissioner. The bill will thus dictate management by statute. We believe effective, efficient management should be left to administrators and that it is fundamentally unwise to look in management functions by statute. We think statutes should tell management what to do but not how to do it.

This is the only statutory Assistant Commissioner which the Code provides for the Internal Revenue Service. In the past, there has from time to time been at the Internal Revenue Service a reshuffling of duties of the Assistant Commissioners to promote greater efficiency and better working relationships. We don't believe we should have to come to this committee and bother you with requests to change the duties and operation of the Service on a day-to-day basis.

On the other hand, we have no objection to trying this out. We are willing to commit the Service to giving such an arrangement a fair trial if we can be sure that the expanded duties will not be at the expense of the Service's present duties to collect the revenue.

The bill also provides a head tax, ostensibly for audit expense. It is a $1 per head tax on plan participants. We don't believe this tax can be justified as a user charge in respect of audit costs. Some large employers would be saddled with audit costs running up to a million dollars, when in fact the larger companies have fewer audit problems than the myriad of smaller employers. Further, this provision appears to be an entering wedge to bad budgeting practices, namely, the earmarking of receipts.

Individual retirement accounts.—Article VII of the Senate bill contains provisions for individual retirement accounts. We enthusiastically applaud this provision. It fills a major gap by allowing the 50 percent of American workers who have no private pension protection to assist themselves in a modest way.

The Senate bill extends this relief only to those who are not now participants in qualified plans, even though those plans provide very inadequate benefits. The original administration proposal would have permitted relief also for those employees who participate in plans which are so inadequate that they are below the $1,500-a-year contribution level which the individual retirement accounts contemplate.

We hope the committee will give favorable consideration to restoring those provisions which would permit self-help for people with inadequate plans as well as for those with no plans.

Self-employed.—The provision for the self-employed in the Senate bill largely incorporates the administration's recommendations. These recommendations are a long step in the right direction of removing artificial distinctions based on the form of doing business, a distinction which has fostered unnecessary incorporation and has led to the wholesale incorporation of businesses which ought to stay as noncorporations.

If your committee is to place limits on corporate plans as the Senate bill does, we urge you to consider whether those same limits, whatever they are, might also become the limits for the self-employed. That consideration should also include a thorough reconsideration of the other differences between corporate and noncorporate plans which are also important.

Within the limits of budgetary constraints, greater uniformity would be highly desirable in this area. It would produce greater equity and greater simplicity and reduce the tendency toward unnecessary incorporations.

Lump-sum distributions.—Lump-sum distributions are the distributions made in one lump sum to an employee who leaves a plan. We agree that the present rules are impossibly complex for the taxpayers and for the Internal Revenue Service.

We urge they be changed. We originally believed that the Senate provisions would be a substantial improvement. On continuing reflection, we have become concerned that the provisions may open new loopholes for the sophisticated planning which has always flourished in this area. That, in turn, will introduce new complexities. We have discussed this with the staff, but I am sorry to say we do not at this time have an answer which we believe to be adequate.

Limitations on corporate plans.—I turn now to the last item, which is the limitations on corporate plans. The original administration proposals did not include limitations on corporate plans, which, as I have said earlier, have been largely unlimited over many years. However, the Senate voted by floor amendment, by a vote of 89 to 2, to impose such limitations. The administration did not oppose that action.

The action of the Senate raises a very fundamental question. It is: Should there be some ceiling on the extent to which the Government should assist, through special tax benefits, in providing retirement pay for any given person? The real issue is not whether pensions larger than $75,000 should be paid, because we assume they would be. But the issue is whether there should be tax support given for benefits in excess of some such amount.

A second issue is whether profit-sharing plans should be treated differently than other retirement plans. Is the desirable goal of employees sharing in their employer's profits an important national goal deserving of tax assistance over and above the extent to which it provides adequate retirement benefits? Again, you are not faced with the question of whether profit sharing is to be allowed, but rather with the issue of the extent to which the tax dollars should be used to further that goal.

All of these questions must be answered by your committee in the context of the basic fact that the present pension and profit-sharing benefits reduce tax revenues by roughly $4 billion a year, nearly 2 percent of our total tax receipts. Yet, for that very large sum we provide benefits for less than half of our workers.

A number of technical problems with respect to limitations must still be worked out, some of which can be worked out by the staff, but a number of which raise substantive issues which should be considered by the committee.

One of the most important of those is the kind of issue raised by the cost-of-living data I showed you. It is the issue of whether it is realistic to put any flat dollar limitation on pensions when you are looking 45 years down the road to a very substantial rise in earnings and costs. We believe any limitation, if it is a dollar limitation, should be covered by some kind of cost-of-living adjustment.

Conclusion

In conclusion, I have tried to touch on very broad issues. I hope it is apparent at this point that the subject is a vast one. I know that you are aware that it intimately affects the well-being of millions of taxpayers.

It is of great importance. It deserves, and I am sure it will receive, your most careful attention.

ADDITIONAL COMMENTS BY MR. HICKMAN IN RESPONSE TO QUESTIONS

In response to questions concerning the timing of committee action on the bill:

I am not suggesting any particular timetable for the committee, but I think that the committee should take whatever time is necessary to be assured that we have adequate response from the public so that we understand the problems that they have found in the bill. I think that does necessarily mean that a 2-week schedule of committee deliberations is insufficient. That cannot happen in that period of time.

I think that it [committee action] should be done at the earliest possible time that your committee and the Senate committee can iron the problems out of the bill. I think that will take a reasonable period of time. It depends on when Congress wishes to go home, I think, whether you can realistically get it done [this year].

I think the most important thing we face at the moment is, first, time for the staffs to clean up the Senate bill, or at least to get it fixed up so that it seems to work; and, second, we need time for the public to respond in a meaningful way to the questions of how the bill affects them. In that process I think we learn about a great many defects that those of us here in Washington perhaps did not realize were in the plan.

I therefore think—if you want just my candid opinion about how best to proceed—that the most sensible thing to do would be to hold off for a couple of weeks while we have a chance for those things to happen and then for the committee to reconvene and deal with the problems on the basis of a more solid factual foundation and a better drafted bill. Then I think you could hopefully move steadily from beginning to end. I don't believe there is any magic date at which you need to finish this assuming that you keep it in a steady way. It is much more important that we have good legislation than that it be done 1 week or 2 weeks earlier.

In response to a question concerning the $75,000 limitation on benefits from qualified plans:

We are very strongly opposed to any limitation on how much of a pension anybody can get from any company. But that is a different question than we have here. The question at hand is how much of whatever pension is granted should the Government contribute to with tax dollars.

That is all that we hope we are concerned with here. I realize that there is in the bill, as it presently stands, a prohibition against so-called nonqualified plans, which when read in conjunction with this limitation on the qualified plans and depending on how you read the limitation on nonqualified plans would seem to put an absolute cap on pensions. We think that ought to come out. There ought not to be an absolute cap on what anybody can get. That is a question of negotiation between the private parties. But there may be a question as to what the tax benefits should be.

In response to the suggestion that article 7 (dealing, in part, with self-employed plans and individual retirement accounts) entails a large revenue loss and should be deleted:

The biggest single item in that revenue loss, some $355 million, is the provision which would permit those people in the one-half of the work force who do not share in the $4 billion that we are already losing to assist themselves in some modest way. That is where the revenue loss is.

. . . we felt that it was important that the one-half of the work force that does not share in these tax benefits should have a chance at least gradually and in some modest way to equalize the treatment.

They are at a terrific disadvantage. The amount we are now losing on account of retirement plans is very large in the total budget and a great many people do not share in it. They tend to be people who are not busy here in the Halls of Congress. They are little people. They are not represented by unions. They are typically not employees at large corporations.

They are just people. And they are getting the short end of the stick. We felt it was time we made a real effort to extend treatment to them. A great many of them are the women that Mrs. Griffiths is especially worried about.

Exhibit 44.—Statement by Secretary Shultz, February 4, 1974, before the House Ways and Means Committee, on fiscal effects of and administration's tax proposals dealing with the energy problem

I am pleased to be with you this morning to discuss the fiscal effects of the energy problem and the administration's tax proposals which deal with aspects of this situation.

The proposals I will discuss today have several purposes. The first proposal is for an emergency windfall profits tax. It is designed to recover excessive profits from oil producers. The next group of proposals were among those I presented to your committee last April.[1] They affect incentives for the domestic production of oil and gas and include the proposals for a minimum taxable income,

[1] Published in 1973 Annual Report, pp. 366–80.

for a limitation on artificial accounting losses, and for an exploratory drilling credit.

The remaining proposals are designed to eliminate several undesirable tax rules which now exist in connection with foreign oil and gas operations. Elimination of those rules would make foreign investment in oil somewhat less desirable than it now is. We believe these proposals relating to foreign operations to be important in the overall picture, but they are directed at limited situations and should not be confused with the broader effort to recover excessive profits.

Before I commence that detailed discussion, let me give you a brief overview of the problem.

The overview

Prior to the Arab-bloc embargo, the U.S. demand for oil had increased to an annual rate of about 17 million barrels of oil per day, only 11 million of which were produced here. Our domestic oil output and capacity stabilized at about 11 million barrels per day around 1970. In fact, the current rate of exploration and development of new domestic reserves is barely sufficient to cover the natural decline in productivity from existing oilfields. This situation is attributable to a number of interrelated factors, including:

Government regulation of natural gas prices at artifically low levels since around 1960. Low gas prices obviously reduce the potential profitability of the gas discovery effort. Since most gas is "associated" with oil, whatever makes gas discovery less profitable makes the discovery of both oil and gas less profitable.

Rising costs of discovering additional onshore reserves. After a century of intensive discovery effort, the remaining onshore prospects are less attractive than offshore prospects. The best onshore prospects today are wells much deeper than most now in operation and they involve much higher discovery costs.

Delays in drilling Outer Continental Shelf prospects. Although costly to drill, these prospects should yield large oil and gas capacities. The delays have been due in large part to Government leasing policies and concerns with environmental questions.

Delays in the output from Alaskan and offshore California fields. These fields should yield large oil and gas reserves but their production has also been delayed due to Government leasing policies and concerns with environmental questions.

Government regulation of domestic crude oil prices. Crude oil prices were frozen at August 1971 levels until January 1973 when small price increases were allowed. "New oil" prices were freed after 2 years of controls in August of 1973, but "old oil" prices are still controlled. The presence of price controls discouraged additional investment which could have increased productive capacity.

To satisfy our increasing energy demands in the face of the restrictions on domestic supplies resulting from the above factors, we turned increasingly to imports.

But under the mandatory import program that had been in effect since 1959, quotas existed which significantly limited imports of oil and refinery products. As demand grew but domestic production held steady after 1970, import quotas were increased, but not at a rate which kept up with increases in demand. Investment in additional refinery capacity in this country thus became unattractive because of the uncertainty that sufficient supplies of crude oil—either domestic or imported—would be available for refining. Accordingly, many U.S. companies built refineries offshore and most of the increase in U.S. imports took the form of refined products such as middle distillate fuels and, particularly, heating oils.

By the beginning of 1973, these domestic circumstances—controlled prices of oil and gas, rising discovery costs, delays in exploration and production for environmental and other reasons, and a growing reliance on imports to satisfy increasing demands—converged with a growing foreign demand for oil stimulated by worldwide economic boom conditions. The result: World oil prices began to advance from their historical levels. And, when the dollar was devalued for the second time in February 1973, the *dollar* price of oil in world markets began to rise higher

The continued high level of demand for oil through the first 9 months of 1973 quickly brought foreign production to maximum shortrun capacity, further increased world oil prices, and set the stage for the world crisis precipitated by the embargo invoked by Arab-bloc producers in October 1973, and the consequent skyrocketing of oil prices.

Most of the profits produced by these very major increases in the price of imported crude oil have gone to the foreign governments that own or control the oil, in the form of higher taxes or royalties. However, a significant part of the increased profits from this source has gone to U.S. companies and individuals in the business of producing and shipping this oil, primarily as a result of sales in foreign countries and, to a lesser degree, as a result of sales to U.S. consumers.

TABLE 1.—*Net income after tax and the rate of re-*

[In millions

Company	1973		1972		1971		1970		1969	
	Net income	%[b] return	Net income	%	Net income	%	Net income	%	Net income	%
Totals	9,087.3	15.1	5,951.7	9.7	6,007.3	10.2	5,556.7	10.4	5,549.9	10.
Amerada Hess Corp	[a] 151.8	23.5	46.2	8.3	133.3	24.0	114.0	25.7	86.5	23.7
Ashland Oil Corp	98.3	17.3	68.0	13.5	40.5	8.8	52.0	11.7	56.9	13.3
Atlantic Richfield Co	270.2	8.9	192.5	6.5	210.5	7.3	209.5	7.5	230.1	8.5
Cities Service Co	135.6	9.8	99.1	6.9	104.5	7.7	118.6	8.9	127.2	10.0
Clark Oil & Refining Corp	30.5	29.9	8.3	9.8	3.6	4.7	10.8	14.0	13.0	18.7
Continental Oil Co	242.7	14.0	170.2	10.4	140.1	9.1	160.3	10.7	146.4	9.8
Exxon Corp	2,440.0	18.5	1,531.8	12.5	1,516.6	13.1	1,309.5	12.0	1,242.6	12.3
Getty Oil Co	135.0	8.8	76.1	5.2	120.1	8.5	103.2	7.8	105.8	8.3
Gulf Oil Corp	[a] 760.0	14.0	447.0	8.3	561.0	10.2	550.0	10.4	610.6	12.1
Kerr-McGee Corp	[a] 58.8	10.8	50.6	10.1	40.7	10.8	35.9	10.3	33.6	10.3
Marathon Oil Co	129.4	15.2	79.8	10.2	88.7	11.7	86.5	11.8	89.4	12.1
Mobil Oil Corp	842.8	15.7	574.2	10.9	540.8	10.9	482.7	10.4	456.5	10.4
Murply Oil Corp	53.6	24.4	14.3	7.6	11.1	6.2	9.3	6.5	6.2	4.5
Phillips Petroleum Co	230.4	12.1	148.4	8.1	132.3	7.6	132.3	7.8	127.8	7.7
Shell Oil Co	332.7	10.9	260.5	8.9	244.5	8.7	237.2	8.6	291.2	10.9
Skelly Oil Co	44.0	7.5	37.6	6.8	38.3	7.0	36.1	7.0	38.4	7.7
Standard Oil of Calif	843.6	14.4	547.1	10.5	511.1	10.4	454.8	9.8	453.8	10.3
Standard Oil Co. (Ind.)	511.2	12.4	374.7	10.0	340.6	9.6	314.0	9.3	321.0	10.0
Standard Oil Co. (Ohio)	74.1	6.6	59.7	5.6	58.8	5.7	64.4	6.3	51.9	5.3
Sun Oil Co	230.0	12.3	154.7	8.8	151.6	8.9	139.1	8.4	152.3	9.4
Texaco, Inc	1,292.4	25.0	889.0	12.4	903.9	13.4	822.0	13.1	769.8	13.1
Union Oil of Calif	180.2	10.6	121.9	7.6	114.7	7.4	114.5	7.6	138.9	9.5

[a] Full year's income estimated on the basis of income reported for the first 9 months of 1973.
[b] Equity as of Sept. 30, 1973.

Through the Federal Energy Office, the administration has requested sacrifices in oil use from all citizens so that as little as possible disruption to our lives and our economy will result from the oil supply disruption. The administration believes that it would be unfair for U.S. producers to be advantaged while their fellow citizens are making the sacrifices required, by retaining excessive profits from the abnormally high prices caused by the shortage.

Increased profits from higher prices to oil owners which occurred in 1973 are reflected in table 1, which compares reported profits and rates of return on equity for the years 1969–1972 and the 9-month period ended September 30, 1973, for 22 of the largest U.S. oil companies. It is important to keep in mind that increased profits are not necessarily "excessive" profits.

turn on equity of selected oil companies (1963–1973)

of dollars]

1968		1967		1966		1965		1964		1963	
Net income	%	Net income	%	Net income	%	Net income	%	Net income	%	Net income	%
5,539.4	11.8	5,175.6	12.0	4,701.9	11.7	4,203.7	11.2	3,846.9	10.8	3,579.7	11.0
89.8	19.8	76.8	22.2	73.1	22.6	63.4	22.2	59.4	23.0	52.4	22.7
53.6	14.6	48.4	15.5	45.0	17.6	35.8	15.5	23.7	14.0	18.1	11.7
105.8	7.8	130.0	10.2	113.5	9.4	90.1	8.1	47.1	7.3	44.0	7.0
121.3	9.9	127.8	10.9	120.1	11.0	100.6	10.2	84.5	9.1	77.5	8.6
12.1	20.4	11.5	23.4	9.6	24.2	8.7	27.8	2.1	8.9	1.5	6.8
150.0	10.6	136.1	10.1	115.6	10.3	96.2	10.2	100.1	11.1	87.4	10.5
1,276.7	13.0	1,155.0	12.3	1,090.1	12.1	1,021.4	11.9	1,050.6	12.6	1,019.5	12.8
98.3	8.3	118.2	10.5	92.3	9.0	57.7	6.9	43.0	5.6	43.0	6.1
626.6	13.2	568.3	12.9	504.8	12.3	427.2	11.2	395.1	11.0	371.4	10.9
36.4	12.0	32.1	11.5	33.0	12.9	25.1	14.6	20.7	14.7	18.8	15.8
83.3	12.7	73.9	12.3	68.8	12.3	60.1	11.3	60.4	11.8	49.1	10.2
430.7	10.3	385.4	9.8	356.1	9.5	320.1	9.1	294.2	8.8	271.9	8.6
7.3	5.4	8.2	6.2	8.4	7.6	6.4	6.1	4.3	4.9	4.8	5.7
129.9	8.0	164.0	11.0	138.4	10.3	127.7	9.9	115.0	9.3	108.1	8.9
312.1	12.3	284.9	13.8	255.2	13.4	234.0	13.4	198.2	12.3	179.9	12.0
40.3	8.5	42.0	9.3	37.0	8.8	34.0	8.8	25.7	7.1	24.2	7.0
451.8	10.7	409.4	10.3	401.2	10.8	391.2	11.1	345.3	10.5	322.1	10.5
309.5	10.1	280.9	9.6	255.9	9.1	219.3	8.1	194.9	7.5	183.1	7.3
70.1	13.0	67.1	14.5	56.9	13.3	49.7	12.7	43.8	12.0	38.9	11.4
164.4	10.9	156.2	15.2	100.6	10.8	85.5	10.1	68.5	8.8	61.2	8.4
819.6	14.5	754.4	14.8	692.1	15.0	636.7	14.9	577.4	14.6	547.6	15.6
149.8	10.9	145.0	11.2	134.2	11.2	112.8	10.4	92.9	14.7	55.2	9.9

Source: Standard and Poors' Industrial Survey, Moody's Industrial Manual, quarterly financial statements filed with the Securities and Exchange Commission (10 Q Forms).

Our preliminary investigation indicates that the 1973 profit increases are primarily attributable to foreign inventory profits from skyrocketing prices, increased profits from increases in foreign product prices, and efficiencies in foreign refinery and other operations unrelated to the prices paid by U.S. consumers. A number of the companies have pointed out that the higher 1973 profits must be interpreted in the light of the lower than normal profits realized in 1972 and the several years immediately prior.

Whatever conclusions may be drawn from the 1973 figures, if the shortage in 1974 produces even higher prices for oil, that fact will cause increased profits to major oil companies from domestic oil sales. The estimated amount of increase attributable to this single element may be seen from table 2.

TABLE 2

Average price—$/bbl. crude [1]	Annual profit after income tax [billion $]	
	Increase [2]	*Total*
1973		[3] 9.0
1974:		
6.50	1.7	10.7
8.00	3.4	12.4
9.00	4.5	13.5
10.00	5.6	14.6

[1] The estimated average price for domestic crude oil as of Jan. 1, 1974, is $5.25 in the case of old oil and $9.50 in the case of new oil.
[2] The increased net incomes shown for 1974 relate only to domestic crude oil production.
[3] Estimated 1973 net income after taxes from table 1.

While the administration believes oil owners should not be permitted excessive profits at the expense of their fellow Americans, let us be clear that U.S. oil prices must adjust upward if higher cost methods of extracting oil are to be used to satisfy our demands. Higher costs of producing oil will mean higher prices for oil. Producers will not produce unless prices cover their costs. And Government production would be no solution, for a Government producer would have the same costs or, if less efficient, greater costs. However, shortrun price increases for oil above the level necessary to call forth the supplies we need give rise to windfall profits. Those windfalls may be taxed very heavily to the producers of oil without impeding the desired free market processes and without imposing additional costs on consumers.

The windfall profits tax is designed:

First, to tax very heavily windfall profits to owners of oil,

Second, to avoid interference with the legitimate profit expectations which will be required to meet our demands and make us independent of foreign supplies, and

Third, to avoid any tax-generated price increases for consumers.

Economic background

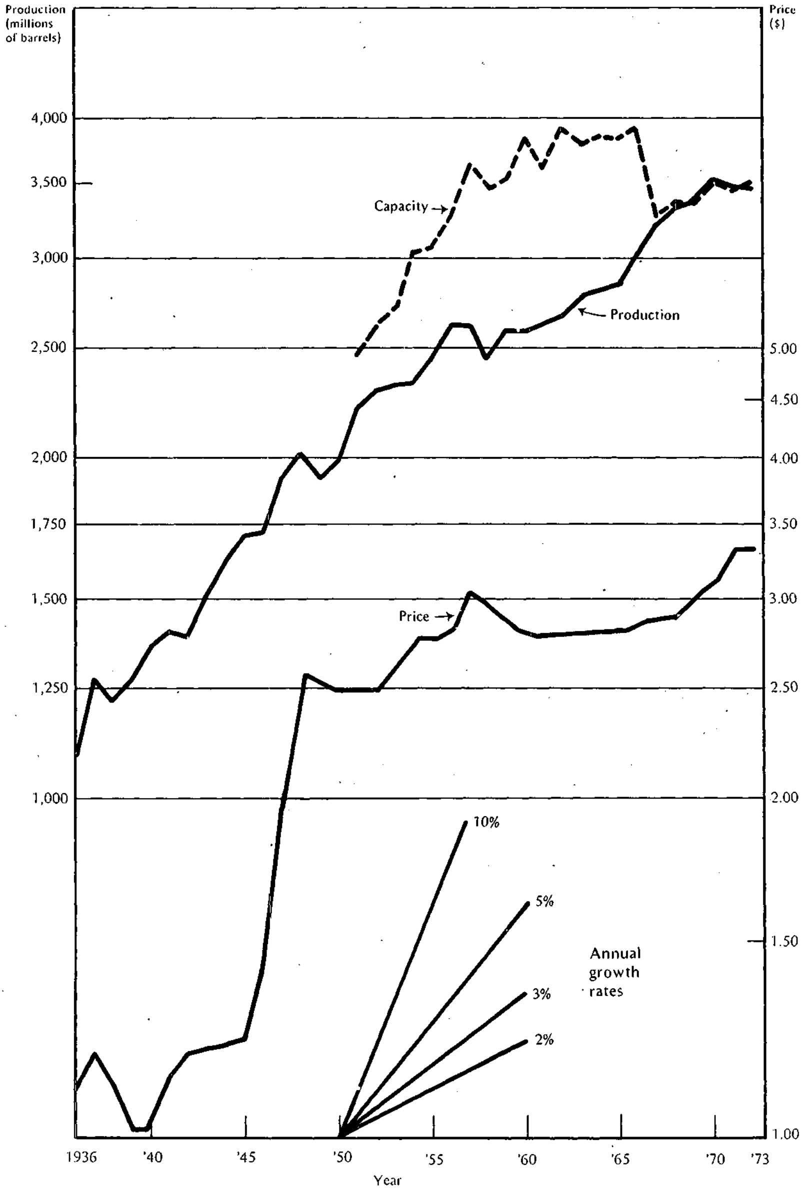
The ability of oil producers to increase the production of oil during the next 2 or 3 years is considered by experts to be quite limited. Prospects have to be found, geological and geophysical work has to be done, wells have to be drilled, pipelines have to be built, and refineries may have to be expanded or built. Therefore, price increases do not have the effect of stimulating nearly immediate supply increases as is the case with some other products, such as foodstuffs.

The expert consensus is that only a small amount of additional oil from domestic sources can be expected in the next 6 to 18 months. There are marginal wells which were previously capped and which might be economically produced now at the increased prices available for oil, but this supply source is not major in the overall context. Within 18 to 24 months, oil could begin to be economically produced at current increased price levels by secondary and tertiary recovery methods. Over a 3- to 5-year period, significant additional production at current increased price levels could probably be obtained from new domestic prospects. And after 3 to 4 years, the Alaska pipeline should be completed.

In contrast to the short run, then, over a period of about 3 to 5 years, it is reasonable to expect that oil supplies can be increased significantly. Historically, the amount of the increase in supplies of oil has been at least 1 percent for every 1-percent increase in the price of oil. Table 3 shows the relationship between price increases and supply increases for the years 1936 to 1972.

TABLE 3

Crude Oil Production, Capacity, and Price Per Barrel at Wells, 1936-1972



Source: United States Department of the Interior, Bureau of Mines

Over each of the two 5-year periods from 1953–1958 and 1963–1968, a price increase of 9 percent was followed by a productive capacity increase of 35 percent and an actual production increase of 17 percent. Additionally, available econometric studies indicate that oil supplies will be increased by at least 50 percent as a result of a 50-percent price increase, given sufficient time. Based upon these data, it is reasonable to assume that after about 3 to 5 years, and allowing for some inflation, if the price of oil increases by about 50 percent from mid-1973 levels, to around $7 per barrel, sufficient domestic oil supplies should flow to satisfy about 85–90 percent of our demands. Accordingly, we have for planning purposes estimated that the "long-term supply price" is about $7 per barrel. But that $7 per barrel figure is an estimate and the ultimate figure may be somewhat more or somewhat less.

Therefore, a tax which bites hard on immediate price increases should not interfere with the production of needed oil supplies if it gradually phases out so that after 3 years there will be no tax on oil prices at around $7 or less per barrel.

Taxing the windfall profit

A windfall profit is one resulting from a change in price caused by a circumstance which is accidental and transitory, such as a temporary shortage of a product because of a strike or, in this case, the cartel-embargo of foreign governments. It is difficult to separate ordinary market prices from prices which permit windfall profits in this context. The price of new oil produced in the United States rose from about $4 to more than $9, between May and December 31, 1973, because of our demands for that oil. That is a very major price increase and some price increase was necessary to call forth the needed additions to our domestic supplies which will occur over a period of 3 to 5 years. Over the near term, however, some part of that price reflects a windfall resulting from actions by the Arab-bloc nations.

Thus for the next year or two, the price rises which have already occurred are more than sufficient to call forth the additional domestic oil which will in fact be produced during that period. Some part of present prices produces windfall profit and additional price increases resulting from the cartel-embargo would be pure windfall.

A determination of the amount on which to impose the windfall profits tax requires selection of a base amount which can be received without tax and from which to determine the taxable amount. In this respect it is similar to and will act as an excess profits tax. The Cost of Living Council's ceiling price as of December 1, 1973 (CLC Reg. § 150.353) was selected as the reference point for the base price. It is a known price and no new, separate or costly calculations will have to be made. It also significantly exceeds historical oil price levels and it was the maximum price permitted on any domestic production until late August 1973.

Under the windfall profits tax, the rates of tax on selling prices of oil in excess of base prices range from 10 percent to 85 percent under the following graduated rate schedule:

TABLE 4.—*Per 42-gallon barrel of crude oil*

Amount in excess of base price	Bracket rate	Bracket tax	Cumulative tax
[$]	[%]	[cents]	[cents]
0–0.50	0	0	0
0.51–0.75	10	2½	2½
0.76–1.10	20	7	9½
1.11–1.70	30	18	27½
1.71–2.50	50	40	67½
2.51 and over	85		

In accordance with Treasury regulations to be prescribed, the top level of the lowest bracket (initially 0 to $0.50) and the bottom level of each higher bracket will be automatically adjusted upward monthly in the uniform percentage required to make the 10-percent rate of tax applicable after 36 months only to amounts in excess of the expected average longrun supply price of about $7 per barrel. Each higher bracket will be adjusted upward to apply to a constant number of cents per barrel above the next lower bracket. That portion of the price increase which remains after payment of the above windfall profits tax is subjected to ordinary income tax.

As you can see from table 5, the windfall profits tax on the oil will be large if the oil shortage is severe enough to cause large price increases in oil and modest if the shortages and price increases are modest:

TABLE 5.—*Net price received by oil producer after proposed emergency windfall profits tax*

[Base price of $4 per barrel]

	Month						
Price	1	6	12	18	24	30	36
$10	$6.35	$6.47	$6.67	$6.94	$7.30	$7.80	$8.47
9	6.20	6.32	6.52	6.79	7.15	7.65	8.32
8	6.05	6.17	6.37	6.64	7.00	7.43	7.78
7	5.90	6.02	6.22	6.42	6.63	6.85	7.00
6	5.58	5.65	5.75	5.84	5.94	6.00	6.00

If we have underestimated the longrun supply price, the tax imposes little penalty. For example, suppose it turns out that 3 years hence a price of $8, rather than $7, is necessary to elicit a domestic supply equal to 85–90 percent of consumption at the then corresponding product prices. In that event, a tax would still apply but it would only be 22 cents a barrel, less than 3 percent of the price. Thus, producers who believe the $7 price is too low can nonetheless proceed on the basis of their own price judgments in the knowledge that when the windfall disappears and their investments become productive, the tax should also disappear, and that even if the tax does not then disappear, it will impose only a minor and vanishing penalty. This is to be contrasted with the situation which would result if prices were controlled. A $7 price ceiling would be equivalent to a 100-percent tax on prices above that amount, and if the long-term supply price should turn out to be higher than $7—or if producers expect it to be—we simply would not get the supplies we need.

However, the tax rates and bracket changes have been designed so that an owner of oil will be discouraged from withholding production until after the tax rate declines or the tax expires. The price of oil is or shortly will be as high as it is likely to be for the next 5 years (in terms of 1974 dollars) and will begin a gradual decline to the long-term supply price. Higher prices now increase the incentives to increase supplies, and gradually increasing supplies will gradually reduce prices. Accordingly, apart from the tax, the owner of oil must attempt to produce the oil quickly to take advantage of the higher existing prices. Taking the rate of decline of the tax into account along with the expected price decline, we estimate that the gain from delaying production of oil to avoid the tax would be less than one-half of 1 percent per month on the average (see table 6 below). Therefore, we believe that no sensible producer will fail to convert his oil to money since the value of the use of that money would be greater than the one-half of 1 percent per month he could gain by leaving his oil in the ground.

TABLE 6.—*Illustrative effect of the windfall profits tax on net proceeds realized by oil producers, for two patterns of oil prices*

Number of months after enactment	Hypothetical prevailing price of oil	Net producer proceeds	Average increase, per month
			Percent
Pattern A:			
1	$10.00	$6.35	
12	9.00	6.52	0.24
24	8.00	7.00	.59
36	7.00	7.00	.00
Pattern B:			
1	9.00	6.20	
12	8.00	6.37	.25
24	7.00	6.63	.33
36	7.00	7.00	.45

The combination of graduated rates and a scheduled upward adjustment of the brackets accomplishes three major purposes:

First, the graduated rates impose very high rates of tax on extraordinary price increases and windfall profits which are attributable more to an externally induced shortage in crude supplies than to longrun market conditions, but impose a lesser amount of tax on relatively small increases above the Cost of Living Council ceiling price.

Second, the automatic upward adjustment of the tax brackets recognizes that windfalls will be short-lived and that prices should peak in the near future and return to lower levels as they gradually result in greater supplies. Most important, it recognizes that if producers are to make the investments which will be required to make us independent, they must be able to count on an absence of burdensome special taxes on prices when those investments become productive several years hence.

Third, the phaseout of the tax as the windfall disappears assures that the tax will not cause higher prices for consumers, for the technical reasons I shall discuss later.

The tax will be imposed on the oil producer at the time of sale of the crude oil or at the end of the month in which produced if not sold. It is contemplated that the tax will be collected and remitted on a monthly basis as follows:

(*i*) The purchaser of crude oil will withhold and remit the amount of the tax from the sales price paid to the oil producer by the 15th day following the end of each month for all crude petroleum purchased during the month.

(*ii*) In the case of crude produced but not sold, as in the case of an integrated producer, the tax will be paid by the producer by the 15th day following the end of the month of production.

In computing percentage depletion, the amount of the windfall profits tax is subtracted from gross income from the oil property before computing percentage depletion. The effect of this is to deny percentage depletion on the amount of the windfall which is taxed away.

Because the period of extraordinary profits is expected to be limited in duration, it is important that Congress reconsider the tax after several years of experience. Accordingly, the tax is to expire by its terms 60 months after the date of enactment.

Price rollbacks are not a reasonable alternative to the windfall profits tax

It would be a fundamental mistake—for everyone except foreign oil producers—to roll back oil prices to some former level. The reasons are several:

First, consumers will end up paying about the same prices in any event. The most they would be spared is a few cents a gallon for a few months. (A $1 reduction in the price paid for new oil, for example, would translate initially into less than a one-half cent per gallon decrease in the price of gasoline and the market would quickly offset that initial decrease.) The principal effect would be to shift profits from the United States to abroad.

Second, the mere presence of ceilings of any sort will tend to dampen the new investment required to produce the increased oil we need. Investors are understandably wary of activities which come to be governed primarily by the laws of politics rather than the laws of economics.

Third, ceiling prices which are less than the prices producers think will prevail will deter them from investing—regardless of whether it is the price authority or the producers whose cost assumptions are correct. Judgments on complex matters like this always differ. Even supposing the Government's price controllers could correctly guess the long-term supply price and use that as a ceiling, the ceiling would inhibit needed investment by producers whose judgments differ. In order to get to the long-term supply price, the ceiling would have to be set substantially higher.

Although it is plainly true, many observers fail to recognize that whatever we do with price controls cannot affect the price of the more than 30 percent of our oil we now import to satisfy our demands. The price of that oil fluctuates according to world demands and world supplies. Recognizing this, our Cost of Living Council rules permit refiners to pass through the foreign price they must pay. Thus, the prices of U.S. petroleum products are subject to controls, but the control system, in a sense, rides on top of the price of crude—and products go up in price when the world crude oil price goes up regardless of what we do to control the price of domestic crude oil. This means that the price levels at which no more petroleum products will be bought by consumers, the so-called market clearing prices, cannot be controlled by controlling domestic crude oil prices. Consumers will eventually pay the same prices for petroleum products whether or not domestic crude prices are controlled. What we do when we control domestic prices at levels below world market levels is simply to permit our refiners to buy our domestic oil too cheaply—compared with world prices—and to bid higher for foreign oil to satisfy our consumers' demands. This, in turn, means that the larger amounts spent by consumers go not to domestic producers and to our Government in taxes, but to foreign oil producers and foreign governments.

Of course, we could prevent this by denying U.S. consumers the right to buy the foreign oil products for which they are willing to pay or by not permitting cost passthroughs for foreign oil prices. But if we do so, we will only be spiting ourselves since either of these measures will prevent foreigners from exporting oil to the United States at a time when we need it, before we have increased our degree of self-sufficiency.

Price rollbacks sound good to consumers until the consequences are appreciated. The consequences would be large transfers of dollars to foreigners and an ultimate reduction in oil for the U.S. consumers, all ironically incurred for price reductions which would be minor and evanescent.

Windfall profits tax compared with alternative taxes

We believe that the windfall profits tax will be considerably more effective and efficient than would either an excise tax or an excess profits tax.

The windfall profits tax differs from an excise tax in that it will in fact operate to tax profits, as the portion of the price to which it will apply is above the level required to cover costs in all but exceptional cases. At the present price of $10 for new oil, the tax in its first month would exceed profits only if costs exceed $6.35 a barrel (see table 5)—which is hardly likely for production planned months ago when prices were much lower. (Prices were controlled at levels below $4 until late August.) If in some small fraction of cases that should not be true, the tax could not exceed profits by more than a few cents per barrel.

An ordinary excise tax shares with the windfall profits tax the virtue of simplicity but, in contrast, is not necessarily a tax on profits and is an undesirably blunt instrument to use in this case. Excise taxes are usually stated as so much per unit or as a percentage of the price of the unit. An excise tax stated as so many cents per barrel or gallon of oil would have to be paid regardless of the amount by which oil prices rose (or didn't rise). That is undesirable since the tax would not be related to the windfall. An excise tax stated as a percentage of the sales price would tax more heavily those who produce oil of higher quality and price than those who produce oil of lower quality and price, which is undesirable since, again, the tax would not be related to the windfall.

A classic excess profits tax of the type in effect during World War II or the Korean war would be a nightmare of complexity and uncertainty. It would be very difficult to design and administer a tax which would not impair the ability and incentive of oil producers to make the investment necessary to produce the additional oil needed to make us independent.

While prior excess profits taxes differed significantly, they contained the common elements of (*i*) a determination of profit in excess of some base amount, (*ii*) the application of a high rate of tax to the excess amount, and (*iii*) complex exceptions designed to alleviate the penal nature of the high tax rate in situations in which the general rule determination of excess profits yielded an inequitable result. The following problems existed in prior excess profits tax laws:

Determination of base period and fair rate of return.—No period can be selected which was a normal period for all taxpayers. That is to say, during any taxable year or years selected, some taxpayers' rates of return on investment or profits will be higher or lower than others for many extraneous reasons, such as strikes, floods, et cetera. Two basic methods have been used to determine a normal profit for the base period. One method is to compute a rate of return on invested capital during the base period, treat that as a normal profit rate, and impose a tax on any profits realized in excess of that rate. The other is to treat the absolute amount of profits realized during the base period as normal profits and impose a tax on any profits realized in excess of that amount. Combinations of the two basic methods have also been used. The assumption of normality for any historical rate of profits or any absolute amount of profits for a particular taxpayer for a particular period is subject to challenge because of the infinite variations in taxpayers' situations. For example, during whatever base period is selected, some taxpayers' businesses were contracting, some expanding; some used heavy amounts of equity capital, some relied heavily on debt; some engaged in heavy research and development expenses, others maximized earnings by postponing research and development expenses, and on and on.

Exceptions for abnormalities.—Because of the problems referred to above and others, complex machinery has always been required to adjust the inevitable inequities arising from the selection of base periods and the calculation of base period profits. Administrative boards and courts become entangled for years over these questions. The World War II and Korean war excess profits tax cases spawned over 54,000 applications for over $6½ billion of relief because of claimed abnormalities in the computation of excess profits. Thousands of lawsuits, the last of which has not yet been decided, required large expenditures of time and manpower for both Government and taxpayer in complex economic arguments over how much was too much profit.

Incentive for wasteful expenditures.—Since the tax is conventionally imposed at a high rate and only on net profits, it has the effect of causing expenditures which would not otherwise be made and which are wasteful. For example, the corporate taxpayer at a 48-percent income tax rate must use 52 cents of its own money for every $1 expended. However, if the marginal tax rate is raised to 85 percent by the addition of an excess profits tax, only 15 cents of every $1 of excess profits spent by the taxpayer comes from its pocket—the other 85 cents will be taken in taxes if not spent. Experience teaches that this leads to wasteful practices and inefficiencies which increase or maintain product prices to consumers without creating corresponding benefits to society.

Applying an excess profits tax only to the net profit of oil production would be even more difficult, for the following reasons:

Increased coverage.—The expected windfalls will accrue to all owners of oil, who include thousands of individuals, trusts, estates, specially taxed corporations such as insurance companies, and other corporations not generally associated by the public with oil companies. Accordingly, the windfall tax must apply to all owners of oil, not just to large oil companies, if it is to be effective. The World War II and Korean war excess profits taxes have applied only to corporate taxpayers. It is safe to say that as complex to administer as prior taxes have been, an excess profits tax affecting thousands of noncorporate taxpayers would be greatly more complex.

Determination of excess profits.—It would be necessary to determine the excess profits from oil production alone if the tax were to be confined to the windfall. Complex allocations of income and expense would have to be made. In the case of the numerous individuals, estates, and trusts who keep minimum formal records, the allocation problem would be even more sizable.

Taxable income management.—Taxable income management through wasteful expenditures would be easier to achieve for oil producers since their incomes are reduced currently through the deduction of most of the costs of new wells and percentage depletion. Wasteful drilling practices and wasteful expenditures for overhead items could reduce the impact of the tax to a large extent without corresponding benefits to society from productive new wells or research.

Other aspects of the windfall profits tax

The windfall profits tax would tax only the person who has the windfall, the owner of crude petroleum. This can be illustrated by looking at gasoline price increases. From October 1, 1973, to late January 1974, average gasoline prices increased by 9.5 cents per gallon.

In the same period, average crude oil prices increased by between $3 and $3.50 per barrel, or about 8 cents per gallon (there are 42 gallons to a barrel). The remaining 1½ cents of the 10-cent increase was permitted to refineries and distributors by the Cost of Living Council to offset higher costs based on a thorough evaluation of their costs and profits. The windfall profit is reflected in the 8 cents which inured to the owner of crude oil and he is the person who must pay the tax if the windfall profit is to be taxed. Refiners, wholesalers, and retailers of petroleum products have been permitted only price increases under the Cost of Living Council rules which reflected, on a dollar-for-dollar basis, the actual costs they experienced.

It should also be noted that the windfall profits tax will tax similarly those oil producers who are similarly situated. A producer who receives a $1 per barrel increase for low-priced oil with a base price of, say, $3 is taxed the same as a producer who receives a price increase of $1 per barrel for his higher quality and higher priced oil with a base price of, say, $4.50. These relative base prices were previously established by market forces and are doubtless fairer than any which could be devised administratively.

The windfall profits tax applies only to domestic production. It is not sensible to attempt to tax the windfall on imported oil for two reasons. First, anything which reduces the net price received by the foreign producer below what he would receive if the oil were sold in another country will only prevent imports from coming to the United States. The oil will tend instead to be sold elsewhere if the net price to producers is higher there because of a U.S. tax. Second, the amount of windfall realized by the company from which the imported oil is purchased is limited—the windfall will be realized primarily instead by the foreign government. This is easily seen by looking at increases in reference or posted prices of oil by foreign governments, which have increased radically and repeatedly in recent months to capture the windfalls from the operating companies. A tax or tariff on imported oil should be imposed only to discourage imports for national security or other reasons, which goes beyond what is appropriate at this time.

The tax is not passed on to consumers

The consumer currently receives Government protection against unfair price increases through a combination of price controls and allocation policies. The windfall profits tax complements these rules and will not have the effect some claim of increasing prices to consumers. Statements to that effect indicate a lack of understanding of how the tax operates. A tax which is less than the windfall profit will always fall on the oil producer.

Why isn't the tax passed on to the consumer? It is because the producers of oil are willing, even if reluctantly, to take less for the oil than the amount consumers are willing to pay and are in fact paying. Producers made their decisions to produce oil expecting prices below the current higher prices which are all that consumers will pay. (If consumers were willing to pay more, and were permitted by price controls to do so, producers would already be charging it.) If customers will pay no more and producers are willing to take less, producers will absorb any tax which does not reduce their expected profit, i.e., reduce it by more than the windfall profit. On the other hand, if the tax is more than the windfall, the tax could fall on consumers in varying degrees, depending upon supply response (the greater the supply response, the more apt the tax is to fall on the consumer). The following example may be helpful.

> Suppose that producers are producing at full capacity and are willing to sell at a price of $x. For extraordinary reasons the price rises to $x+2, producing a windfall profit of $2. That represents the maximum price that consumers are willing to pay because if they were willing to pay more, producers would be charging more.
>
> If a tax of $1 is imposed it will not affect supply, since by definition the supply is the same at any level above $x. If producers could previously have added $1 to the price, they would have done so already. If they now try to add $1 to the price, demand will simply fall. Thus, the price to consumers will not change and the oil producers will have to pay the $1 to the tax collector.
>
> However, if there is no windfall profit in the price, a tax will affect the amount which oil producers are willing to supply and some part of the tax will inevitably be passed on in the form of a price increase, as a lesser supply will result in price increases. The greater the supply response (i.e., the greater the contraction in supply), the closer to the amount of the tax the price increase will tend to be.

Proposals relating to domestic incentives

Among the tax proposals which I presented to you in April 1973 were several which affect incentives for domestic exploration for and production of oil and gas. They are the proposals for the exploratory drilling credit, for a minimum taxable income, and for a limitation on artificial accounting losses. I said to you in April:

> . . . 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.

To that end we proposed a new investment credit for exploratory drilling. This credit operates in much the same way that the investment credit operates, and we expect it to be similarly effective in encouraging new exploration.

The tax law now contains incentives for oil and gas production in the form of the percentage depletion allowance and the deduction for intangible drilling costs. Of these, the provisions for intangible drilling costs are the more effective incentive for new production because they relate to the drilling operation itself and because the deductions may be taken whether or not the drilling is successful. Percentage depletion, on the other hand, relates only to production, and is a more diffused incentive because its benefits are available only if the drilling is successful and then only over a period of years.

The new exploratory drilling credit is concentrated on the activities which are most needed, namely, the discovery of new fields and reservoirs. And since it provides a major and immediate benefit for drilling activity, it should have a significant incentive effect on that activity.

The existing incentives provided by percentage depletion and the immediate deduction of intangible drilling costs would be lessened, respectively, by the administration's proposals with respect to minimum taxable income (MTI) and limitation on artificial accounting losses (LAL). These reductions in existing incentives, which are not large in relation to aggregate investment in the industry, are necessary for other reasons and are more than offset by the somewhat larger and more efficient incentives which would be provided by the proposed exploratory drilling credit.

The purpose of both the MTI and LAL proposals is to stop the spectacle of high-income taxpayers paying little or no Federal income tax and thus to remove an element which tends to corrode the indispensable public confidence in our tax system. The Internal Revenue Code contains many preferences designed to provide incentives for particular activities. We believe that Congress should review them individually from time to time so that those which have become outmoded and unnecessary can be revitalized or eliminated. However, the pressing need at this time is to see that such provisions, in total, do not give rise to the public impression that tax laws apply unfairly in favor of the wealthy, who are the persons most likely to respond to the incentives. Thus, the minimum taxable income proposal deals with existing incentives (leaving their reexamination to another day) and proceeds on the philosophy that while individual incentives may be good, there may be too much of a good thing. The minimum taxable income proposal would place a limit on the aggregate amount of certain incentives which may be used by a particular taxpayer. Stated very roughly, the concept is that a taxpayer should not be permitted to use such incentives in an aggregate amount which exceeds half of his "economic" income. Just as the Code now places limits on particular incentives—such as the 50 percent of income limitation on the charitable deduction—the minimum taxable income proposal would place a limitation on aggregate incentives.

In designing the minimum taxable income provision, we were mindful that it would affect the use of percentage depletion in cases where percentage depletion in combination with other covered items exceeded half of the taxpayer's economic income. We concluded after careful consideration that, while individual taxpayers would complain, the proposal's effect on percentage depletion would be minimal in the aggregate and would not significantly affect capital investment for increased production of oil and gas. Whatever slight adverse effect the proposal might have in that regard, we believe it is the necessary price of preserving public confidence in the tax system generally.

The LAL proposal also lessens somewhat the incentives provided by the immediate deduction of intangible drilling costs. In the case of producing wells, such deductions often create accounting losses even though the well is in fact profitable. Under the proposal, such losses could be used only to offset income from oil and gas properties, and not to offset other income. The purpose of the proposal is to prevent high-income taxpayers from eliminating their current taxable income from other sources by using deductions which do not represent economic losses. Drilling expenses incurred in connection with holes which turn out to be dry are not artificial losses and are unaffected by the proposal. While the proposal limits the use of such artificial losses, it does permit their utilization against oil and gas income and in that sense provides an incentive to oil and gas investment which partially offsets the disincentive.

Looking at the April 30 proposals as a package, the proposals for MTI and LAL would reduce to some degree the existing incentives for investment in oil and gas, but the proposal for an exploratory drilling credit would, in terms of dollar benefits to taxpayers, more than offset the dollar detriments arising from those proposals. Thus, when both proposals are considered together, the dollar tax incentives offered for investment in oil and gas remain essentially unchanged—but a significant portion of those dollar incentives has been rechanneled to operate in a much more efficient way to produce new oil and gas reserves.

Thus, we urge your committee to act promptly on the proposed exploratory drilling credit, but to keep in mind that it must be considered in the total context of the proposals for minimum taxable income, to which we hope you will also accord a high priority.

Proposals relating to foreign operations

As a part of the program to make our Nation independent in energy resources, we believe it desirable, within the limits of fairness, economic efficiency, and national security, to emphasize incentives for domestic exploration as distinguished from foreign exploration. With that in mind, we presented to you last April a proposal relating to the recovery of foreign losses that are deducted against U.S. income. We now have two additional proposals relating to foreign operations which we ask that you consider.

The foreign tax credit.—All of these proposals require an understanding of the international system for avoiding double taxation of income earned in one country by a citizen of another country. The major nations of the world have a network of systems designed to avoid excessive double taxation of income. Those systems vary in detail but fall into two general categories. Under some systems, income earned abroad is simply not taxed in the home country. France and the Netherlands, for example, have systems which generally follow that basic concept. Other countries, including the United States, Great Britain, Germany, Canada, and Japan—our major trading partners—have tax credit systems.

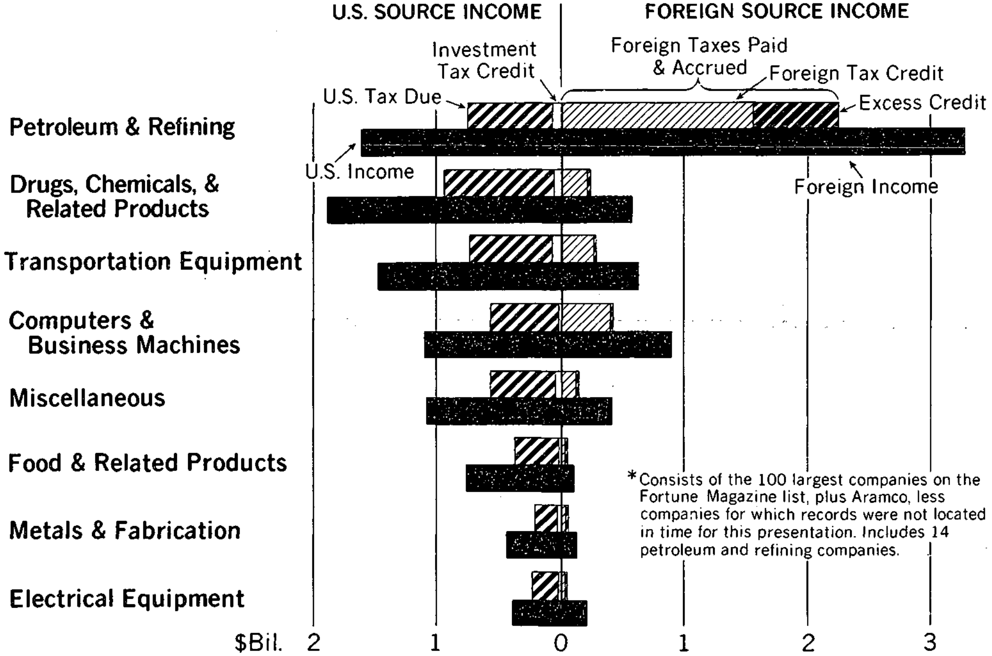
The basic concept of a tax credit system is that the country in which the business activity is carried on has the first right to tax the income from it even though the activity is carried on by a foreigner. The foreigner's home country also taxes the income, but only to the extent the home tax does not duplicate the tax of the country where the income is earned. The duplication is eliminated by a foreign tax credit. For example, if a U.S. corporation were taxed at a 30-percent rate in country X on its income from operations in country X, the United States would not duplicate country X's 30 percent tax on that income. But since the U.S. corporate income tax rate is at 48 percent, the United States would collect, i.e., "pick up," the 18 percent which remained over and above the 30 percent collected by country X. Technically the result is achieved by imposing a hypothetical 48 percent U.S. tax on the income earned in country X, with the first 30 percentage points rebated by a credit. However, if the foreign rate were 48 percent or more, there would be nothing left for the United States to pick up and thus no tax payable to the United States on that foreign income.

Note that the foreign tax credit only affects income earned in some foreign country through activities conducted in that country. Income arising out of operations conducted in the United States and the taxes on that income are totally unaffected by the credit.

The following table permits one to understand the fact that high taxes are being paid by the oil industry to foreign governments on the large proportion of non-U.S. income that is earned by these corporations; that the United States gives a credit for U.S. taxes on the foreign source income that results in an excess credit; that these credits do not reduce U.S. income taxes on the income earned from U.S. operations; and that the same basic tax credit principle operates for all U.S. industries, not merely oil.

Table 7

INCOME AND TAXES PAID, OF THE 79 LARGEST U.S. COMPANIES,* 1970



Office of the Secretary of the Treasury,
Office of Tax Analysis

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It is also important to note that the satisfactory functioning of this credit system depends upon reciprocity among nations. Thus, the United States reciprocally has the first right to tax income of foreigners arising out of operations in the United States, and the home foreign countries either give those foreigners a credit for the U.S. tax or they exclude the U.S. income entirely from the home country's tax base.

When Congress wrote the basic tax credit provisions in 1918 and when the question of oil country taxes first became controversial 20-odd years ago, circumstances were different from what they are today. Most foreign countries today have income tax rates nearly as great or greater than the U.S. tax rate. Thus, after our companies have paid their tax abroad, there is little or nothing left for the United States to pick up on that foreign income unless we wish to impose a tax which duplicates the foreign tax. It has been the broad position of our Government, under this and previous administrations, that the avoidance of double taxation is a sound principle and that we should continue to participate in the international system designed to avoid it. If we were now to withdraw from the system, we would invite retaliation and discrimination from other nations and would be required to rethink and renegotiate international arrangements. Excessive tax burdens would be imposed on U.S. companies' operations abroad and their international competitive position would be severely affected.

In summary, the basic foreign tax credit must be understood not as a tax loophole or positive incentive to foreign investment, but rather as part of a system designed to allocate primary taxing jurisdiction to the government within whose borders the income is earned. The system does not reduce the total tax bill of U.S. companies below the amount they would have paid to the United States if the income had been earned here. They are excused from paying U.S. tax on foreign income only to the extent that they have paid an equivalent tax on that income to a foreign government. We must accept the fact that other countries now impose taxes comparable to ours, so that the United States now collects little or no tax from operations conducted by its corporations in most major foreign countries.

There still remain, however, certain "tax haven" countries which impose little or no tax, and there exist also some countries where the tax rates are much higher than U.S. tax rates. Much of the complication in the present system arises out of the desire of taxpayers either to average or not to average (depending upon the circumstances) the income and taxes of high-tax and low-tax countries.

At the present time, the oil-producing countries impose taxes at very high rates. If these taxes were expressed as a percentage of taxable income as defined by our rules, they would be in the neighborhood of 90 percent. But if they were only as high as our corporate income taxes, namely, 48 percent, the United States would still collect no tax on earnings in those countries. However, the difference of 40-odd percentage points between those rates and U.S. rates produces very large "excess tax credits" which, under existing rules, can be used to eliminate the tax that the United States would otherwise pick up in the low-tax, tax haven countries. One of the proposals I shall discuss later deals with an aspect of that fact.

Recovery of foreign losses.—The April proposal with respect to the recovery of foreign losses is directed to a situation that arises because a taxpayer with losses in a foreign country can deduct those losses against income earned in the United States in the year of the loss. When the foreign operation becomes profitable in a later year, the foreign country often collects tax on the profits without regard to the prior loss, and if that tax is as large as our 48-percent tax, the resulting credit will absorb any U.S. tax on those foreign earnings. The result is that the United States shoulders the burden of the startup deductions, but the foreign country collects the tax when the operation becomes profitable. Such losses often arise in connection with the exploration for oil or gas deposits abroad, involving large intangible drilling and development costs.

The April proposal would modify the foreign tax credit provisions to require that 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. This would eliminate the present situation which permits the current deduction of intangible drilling costs and other startup expenses in a foreign country against U.S. source income and then permits a foreign country to claim the full income taxes on the profits, with a U.S. tax credit for such taxes when production begins. The proposal, by restricting this possibility, would eliminate a present U.S. tax benefit for commencing foreign drilling operations. The estimated revenue gain from this proposal is $100 million annually after 5 years.

Elimination of percentage depletion in the case of foreign oil and gas production.—Percentage depletion was first allowed in 1926. Through the years it has been retained as an incentive for exploration for new reserves. Percentage depletion has been available regardless of whether the producing property is located in the United States or in a foreign country. However, from time to time adjustments have been made in rates and rules, and under existing law percentage depletion is unavailable, or available at a lower rate, for foreign production of a number of minerals other than oil and gas. In the case of oil and gas the depletion deduction is and has always been available abroad to the same extent as in the United States.

In recent years, percentage depletion on foreign oil and gas has not produced a benefit in many, if not most, cases because of the generally high foreign taxes imposed abroad. (The precise amount of the hypothetical U.S. tax is irrelevant if the foreign tax is in any event higher, so that the foreign tax credit eliminates the U.S. tax.) However, there is a potential benefit for production in countries with lower tax rates.

It is now apparent that our primary aim should be to encourage the exploration for new sources of oil and gas in the United States. There is no longer any policy support for giving special encouragement to oil and gas exploration and production abroad. Thus, we now propose that the Internal Revenue Code be amended to provide that percentage depletion shall not be allowed with respect to oil and gas wells located in foreign countries. The percentage depletion allowance for oil and gas would be limited to wells located in the United States, in its possessions, in the Commonwealth of Puerto Rico, or on the Outer Continental Shelf.

Because the taxes of the major countries where oil and gas is now being produced by U.S. companies are now imposed at rates equal to or in excess of these which would be imposed by the United States, no major revenue effect is expected from this change, although it may have a significant effect on some producers. The estimated revenue gain is $50 million.

We are not now proposing any change in the percentage depletion deduction available for other natural deposits located in foreign countries. However, that question should be examined from time to time and adjustments made when appropriate.

Excessive foreign tax rates.—Using artificially high posted prices for oil and high tax rates, many oil-producing countries now collect "income taxes" on petroleum profits which greatly exceed income taxes normally collected by governments on other business activities. This has created what we believe to be a distortion in the normal and equitable operation of our foreign tax credit system.

We continue to support the principle of avoiding double taxation through a tax credit system. But like other basically sound principles, it can be subject to distortion and abuse in particular situations. The special problem that we are dealing with arises particularly where the taxing authority and the ownership of the oil are embodied in one and the same entity, which thus has the power to extract payments from our oil producers in the form of taxes or in some other form, at its discretion. The high artificial posted prices on which the taxes of a number of oil-producing countries are based have created legitimate concern over whether the payments treated as creditable tax are income taxes or taxes in lieu of a tax on income. It is argued that these payments, at least in part, more realistically represent some other business expense.

Business expenses are excludible or deductible from gross income, but they may not be credited against U.S. income tax. Foreign income taxes, on the other hand, may be either deducted from income or credited against U.S. tax, at the option of the taxpayer. Thus, if the tax law allows payments which in substance are not income taxes to be treated as income taxes, taxpayers will receive larger credits than they should. When the amount of the "tax" payment on foreign oil production exceeds the U.S. tax on the same income, the excess payment gives rise to an excess foreign tax credit which may be used as a credit against U.S. tax on income from other operations in that country, or on income from other foreign countries, depending on whether the foreign tax credit is computed on the per-country limitation or the overall limitation.

In the case of oil production, foreign producing countries generally base their tax on the "posted price" for crude oil. The posted price as a fictitious price which may or may not have any relationship to the market value of the oil. It is, however, almost always higher and has moved dramatically higher in recent months. As the posted price has risen, the foreign taxes have gone higher. This has led to greatly increased excess credits for taxes paid the oil-producing countries.

Under the tax credit system, as the foreign tax rate goes up, the U.S. tax goes down, until the foreign rate becomes 48 percent and the U.S. rate becomes zero. Thereafter any increases in the foreign rate have no further effect on the U.S. rate on the foreign income but simply create "excess credits," which most companies cannot use. However, companies electing the "overall limitation" on the foreign tax credit may average foreign tax rates so that excess credits in one country may, in effect, be used to pay U.S. taxes with respect to income earned in another foreign country which imposes little or no tax. While we believe this result to be satisfactory in general, we believe it leads to a distortion of the credit mechanism in the case of oil companies under present circumstances.

The total amounts of these payments to the foreign producing countries, and the effective rate of taxes have grown so large that, whether or not they technically qualify as income taxes, we do not think that we should continue to treat them entirely as an income tax for tax credit purposes since they exceed normal levels of taxation and can affect very significantly the U.S. treatment of other foreign source income of U.S. oil companies. For a number of years, the existence of increasingly large excess tax credits was of minor importance because there was no U.S. tax payable in any event, and the companies simply accumulated excess credits which they could not use. It now appears, however, that major international oil companies are beginning to engage more heavily in foreign operations other than oil extraction, including operations such as shipping, which are subject to little or no foreign tax. The number of companies electing the overall tax credit limitation appears to be increasing, and the income from these low-taxed foreign operations is thus shielded from U.S. tax by using the excess credits resulting from the extremely high "taxes" paid to the foreign governments on the foreign oil and gas income.

Our proposal would continue the foreign tax credit mechanism substantially as it has existed over the years, and it would not tamper with the basic definition of an income tax. We do not underestimate the ability of foreign oil-producing countries to design the structure of their levies to correspond to any definition of an income tax that we require. But under our proposal only a reasonable part of the foreign income tax would be treated as a *creditable* tax. The balance would be treated as an expense. We propose to use U.S. tax levels as a standard in determining what is a reasonable level of foreign tax to be creditable. Thus in the case of these foreign taxes on oil and gas production, we would treat as creditable only an amount equivalent to the U.S. tax on the same income—i.e., in most cases the 48-percent general corporate rate or, the lesser 34-percent rate for Western Hemisphere Trade Corporations, as the case may be.

Since the expense part of the tax is deductible in determining taxable income, the determination of the creditable portion must be made by an algebraic formula. The explanatory material in the appendix sets forth this formula and shows how it is derived. Its practical result is that foreign oil production will no longer generate excess foreign tax credits.

For purposes of applying these rules, the foreign oil taxable income of the taxpayer and the foreign tax paid with respect to that income would be determined separately for each foreign country, and the proposed new limit on creditable taxes would be computed separately for each foreign country. After application of the limit, the creditable taxes would be aggregated with other creditable taxes and subjected to the normal per-country or overall limitation on the foreign tax credit. Excess tax credits accumulated in taxable years beginning before the effective date of this proposal could be carried over to years beginning after the effective date of this proposal as under present law, but would be denied to the extent that they could not have been utilized had this change not been enacted. The proposal would become effective with respect to taxes paid during, or accrued with respect to, taxable years ending after December 31, 1973.

It is not possible to estimate the revenue gain from this proposal with precision because its enactment will cause taxpayers to change their operations in ways which we cannot predict. If more companies were to devise ways to use the excess credits generated under the present system, the revenue loss could be in excess of $1 billion a year. The proposal would foreclose that possibility. If the proposal were applied to existing patterns of operations, we would expect it to produce revenues of about $400 million a year over current levels. However, taxpayers can be expected to change their procedures to reduce that amount substantially.

It has been suggested that the proper approach to this problem is to deny the foreign tax credit entirely with respect to the existing taxes on oil income. We believe that our proposed limitation is far more desirable. The result of denying the credit would be to subject U.S. companies to higher tax burdens than their foreign competitors. The step of denying any tax credit should not be taken unless it is determined that U.S. oil companies should not participate in foreign oil and gas production.

It has been suggested that the problem in this area is that the international oil companies are paying absurdly low taxes, sometimes alleged to be on the order of 2 or 3 percent, and that those taxes should be raised to the level of other U.S. companies. This is a simplistic way of looking at the problem. The fact is that these companies are paying *high* taxes on their *foreign* production. It is true that these taxes are not being paid to the United States, but it is also true that there is no reason under the international system that they should be paid to the United States. If a U.S. company can go to Saudi Arabia, find and produce oil, take it to Japan or Western Europe, sell it at a profit, pay reasonable taxes to the countries concerned, and repatriate the after-tax profits to the United States, U.S. policymakers should not be dismayed; they should be pleased.

We are all upset because the price of oil is high, but the reaction should not be to strike out blindly at the most available target. The approach of our proposal is not a vindictive one. We are not trying to penalize oil producers. Nor are we trying to restrict U.S. companies to U.S. business. What we are suggesting is a technical change which will remove the possibility of the oil producers obtaining an undue benefit from changed circumstances.

In conclusion, let me emphasize our conviction that all of these proposals, together with those which we made last year, are of great importance to our Nation's welfare. We urge that you give them a high priority. The Treasury Department will be pleased to assist in every way it can.

APPENDIX

Determination of Creditable Portion of Foreign Income Taxes on Oil and Gas Production

Many countries collect income taxes on oil and gas production at excessive levels. The Treasury proposal would characterize part of those income taxes as deductible expenses.

The method of dividing foreign income taxes between a portion which would be creditable against U.S. taxes, and the remainder, which would be characterized as an expense, may be described in three steps:

(1) The creditable portion of the tax would be equal to the U.S. tax rate applicable to corporations times foreign source petroleum income *defined according to U.S. law.* (The rate would be 48 percent for corporations other than Western Hemisphere Trade Corporations and also for individuals, trusts, and estates, but would be 34 percent for Western Hemisphere Trade Corporations.)

(2) Foreign source petroleum income defined according to U.S. standards would be equal to the fair market value of the petroleum, less royalties, lifting costs, and other allowable expenses, and less that portion of foreign income taxes which is characterized by the United States as an expense.

(3) The portion of the foreign income tax characterized as an expense would be equal to the total foreign income tax less that portion of the foreign income tax which is creditable against U.S. taxes.

Each step in the apportionment of foreign income taxes depends on some other step. Thus, to determine the creditable portion of the foreign tax, it is necessary to express the principle as an algebraic formula. The general statement of the principle is that the maximum creditable portion (M) of the foreign income tax (T) is equal to the U.S. tax rate (R) times the excess of foreign petroleum taxable income computed without deducting any portion of the foreign tax (I) over the deductible portion of the foreign tax ($T-M$). This may be expressed as the equation:

$$M=R\,[I-(T-M)]$$

This equation may be simplified into the form:

$$M=\frac{R(I-T)}{I-R}$$

In most cases R will equal 48 percent, and the equation may be further simplified into (approximately):

$$M=.923(I-T)$$

In the case of a Western Hemisphere Trade Corporation, $R=34$ percent, and the equation becomes (approximately):

$$M=.515(I-T)$$

In practical terms, under the proposal, foreign petroleum ventures would no longer generate "excess" foreign tax credits. This is illustrated by the following table:

	Present law	*Proposal*
Calculation of foreign tax:		
Posted price, per barrel	$11.65	$11.65
Royalty (12.5 percent)	−1.46	−1.46
Lifting, etc., costs	−0.20	−0.20
Income as defined by foreign government	9.99	9.99
Foreign income tax (55 percent)	5.49	5.49
Calculation of U.S. tax:		
Fair market value	7.65	7.65
Royalty	−1.46	−1.46
Gross income	6.19	6.19
Depletion allowance (22 percent of $6.19)	−1.36	0
Lifting, etc., costs	−.20	−.20
Portion of foreign income tax recharacterized	0	−5.03
Taxable income for U.S. purposes	4.63	.96
U.S. income tax (48 percent)	2.22	.46
Calculation of credit:		
Maximum credit for foreign income tax	2.22	.46
Excess foreign tax credit	3.27	0
Portion of excess disallowed because of depletion deduction	−.65	0
Available excess credit	2.62	0

Under the proposal, excess foreign tax credits carried forward from years prior to the effective date of the proposal would still be characterized as excess credits available in the future to the extent they would have been used if the proposal had not become law. The excess foreign tax credits from such years would *not* be converted into deductions. If they were deductible from taxable income, the result would be a substantial revenue loss. The additional deduction would typically exceed taxable income before the deduction leaving the companies with a loss which they could offset against taxable income from U.S. sources.

For example, assuming that the figures shown in the table apply in 1973 and 1974, an excess credit of $2.62 from 1973 would more than offset the taxable income for U.S. purposes of $0.96 for 1974, leaving a net loss in 1974 of $1.66. This loss could be used to offset U.S. source income of an equivalent amount, on which the U.S. Government would lose the tax of 48 percent or $0.80.

Treatment of a portion of the foreign income taxes as deductible cannot result in a reduction of U.S. taxes on U.S. income except in the unlikely case in which the foreign income taxes together with the costs associated with the petroleum exceed the value of the foreign petroleum. This case is particularly unlikely under our proposals because of the denial of a deduction for percentage depletion.

Exhibit 45.—Statement of Secretary Shultz, March 19, 1974, before the Senate Finance Committee, on question of lowering personal income taxes

I appreciate the opportunity to share with you the views of the administration on the question of whether to cut personal income taxes at this time. At the outset, I want to say that nothing would please us more than to lower taxes, if this were to be accompanied by at least as large a cut in Federal spending, done in a responsible manner so as not to detract from our pursuit of vital national objectives. Nothing in the proposals I have seen, however, suggests that a spending cut is what their proponents have in mind. To the contrary, their idea is to reduce taxes without cutting spending, thereby increasing the currently projected budget deficit by the same amount, in order to stimulate the economy by increasing aggregate consumer demand.

We are opposed to the suggested tax cuts for several reasons. First, Government policy is already responding to the economic slowdown brought on by the oil embargo. Our first line of defense in combating a rise in unemployment is the automatic stabilizers that are built into the economy. The automatic stabilizers are an important reason the budget is now moving toward a larger deficit. Not many months ago, we were anticipating a balanced budget for fiscal year 1974.

Our projection now is that we will have a deficit of $4.7 billion. In fiscal year 1975, the deficit is expected to rise to $9.4 billion. These deficits will support economic activity during its period of weakness early this year, and help prevent the economy from sliding into a real recession.

Our unemployment insurance system is a most important automatic stabilizer. It comes into play automatically and without delay when the economy begins to slip, cushioning the loss of income for workers who are laid off. The money is there when the worker most needs it. The program also phases out automatically when employment picks up again.

Almost a year ago, the President proposed a major strengthening of the unemployment insurance system. Under this proposal, higher minimum unemployment benefit standards would be established and coverage would be broadened. This year the President has recommended additional amendments to extend the duration of benefit entitlement and to expand coverage in those geographic areas that experience significant increases in unemployment.

Unfortunately, the Congress did not act on the President's proposals in 1973. I think it is of crucial importance that the Congress make up for lost time and strengthen the unemployment insurance system at the earliest possible date. With unemployment rising, there is no time to waste.

Where economic weakness is concentrated in a handful of industries rather than being all-pervasive, measures like unemployment insurance are far better targeted to cushion the impact on those directly affected than is a general tax cut, which does nothing directly for the unemployed and simply provides unneeded stimulus in areas of the economy already suffering from supply shortages and severe inflationary pressures.

Beyond the support provided by the automatic stabilizers, the economic weakness we are now experiencing, or are likely to experience in the months ahead, does not appear to be severe enough or widespread enough to call for additional fiscal stimulus. Although there has been some slowdown of the economy, this slowdown began from a point where overall output was pressing hard against the capacity to produce. Thus, the economy is still operating at a high level. Employment on nonfarm payrolls increased to an alltime high in February. Industrial production had declined only 2 percent from its November high, due mainly to the automobile cutback. The unemployment rate had risen, but the rise was quite concentrated, industrially and geographically; over much of the country, unemployment rates were still low in February.

There have been significant reductions of economic activity in particular sectors of the economy—for example, in automobile production, airline travel, recreational activity, and service-station employment—all attributable to the abrupt change in the availability of energy. More generally, housing has been in a slump and retail sales measured in constant dollars have been on a plateau since the first half of 1973.

We must bear in mind, furthermore, that the statistics for the relatively weak first quarter will be published, after the usual lag, in April and May. They will be referring to an economic performance that is past, and they will be doing so at a time when the expansion may already have begun.

We do not now have evidence that renewed economic growth is underway. There are, however, clear indications of sustained strong demand conditions through most of the economy. There has been a continuance, even an increase, in the already high backlogs of manufacturers' unfilled orders. Many industries, including steel, nonferrous metals, machinery, electronics, chemicals, paper, agriculture, and others, continue to operate at essentially flatout, full capacity. The continued upward pressure on the prices of basic agricultural and industrial commodities further demonstrates the absence of general demand weakness that would normally be associated with a cyclical downturn.

It is difficult to see any persuasive signs of broadly based or cumulative reduction in demand for the economy as a whole that might call for added fiscal stimulus. The continued basic strength of the economy is reflected in numerous ways. One favorable factor is the capital investment boom, which continues unabated. If anything, businesses are still revising their investment plans upward. Another is strong inventory demand, and modest ratios of stock to sales in most sectors. Government spending is on the rise, too, at both the Federal and local levels. Furthermore, it appears that housing, hampered last year by mortgage-money shortages, should soon enjoy an upswing from the improved flow of funds into the mortgage-granting institutions.

In those industries where the energy problem has caused a decline in demand and production, we should also remember that the situation contains at least some of the seeds of its own rejuvenation. The best example is the automobile industry, where assembly lines are now being converted from standard-size to smaller cars. This conversion takes time—as much as 8 to 10 months. Since the demand for small cars continues strong, once the assembly lines are restructured, laid-off workers will be rehired to produce more small cars. The forces for revival will be further strengthened as the oil embargo comes to an end and oil output in the Persian Gulf area increases.

Taken together, these factors point clearly toward two conclusions: that the hesitancy in consumer spending and the cutbacks in automobile production and other directly energy-related areas are not having a cumulative, falling-domino effect in other parts of the economy, and that before too long the economy is likely to bounce back and resume its normal posture of growth. Consequently, neither the current economic situation nor the outlook for the remainder of the year indicates that there is a need for additional economic stimulus at present.

Another fundamental reason for this conclusion is the fact that inflation remains an extremely difficult problem. In 1973, we experienced a surge of inflation; consumer prices increased 9 percent and wholesale prices rose 18 percent. In the past 3 months for which we have figures, consumer prices rose at an annual rate of 10 percent and wholesale prices at an annual rate of 29 percent. Even if we exclude farm, food, and fuel prices, where extraordinary factors are at work, other consumer prices were rising at an annual rate of over 4 percent and wholesale prices at an annual rate of 19 percent. With large food and fuel price increases still working their way through the economy, the price indexes will continue to rise rapidly in the first half of 1974. Thereafter, although some easing of pressures should take place, the basic rate of inflation might remain very high, perhaps around 5 percent.

It is fair to say, I think, that the second half of 1974 will be a crossroads for the future of inflation in America. The situation will be sensitive to an acceleration of inflation. Economic activity will be rising. In many sectors there will be shortages. Experienced labor will not be abundant. The memory of earlier inflationary surges will be fresh in everyone's mind. It will be a condition in which, if the economy moves ahead too fast, we could get a step-up in the inflation rate from which it will be hard ever to retreat. We could build the 1973–74 surge of commodity inflation into the economy in a way that would take a severe economic bust to dislodge.

I realize, of course, that this view of the future may overstate the inflation danger. However, it is also possible to underestimate that danger. We have gone on too long taking too many risks on the side of pumping up the economy and neglecting the inflationary consequences. Our responsibility for the future of the country requires us not to do that again, however tempting the immediate political or economic gains. If we prove to be wrong in our diagnosis of the current situation, and if a widespread economic decline does appear to be building, we should of course have on the shelf appropriate counteractions. It would be irresponsible of us to fail to prepare for the possibility that a deeper and more prolonged sag in economic activity will take place. Our projections could turn out to be incorrect; as we all know very well, there is no sure thing in economic forecasting. With this in mind, we have prepared contingency plans to add temporary stimulus should it prove necessary. At present, however, we think the odds are decisively the other way.

However, if a further stimulus to demand is required, the method of a general tax cut does present some real problems for the committee to consider. The idea of cutting taxes raises an especially serious question about long-term fiscal responsibility. We all know that it is much easier to cut taxes than to raise them. Thus, if we reduce taxes now, how are we going to get the revenues that will be needed to cover Federal spending when the economy returns to full prosperity?

In addition, past experience demonstrates that enactment of major tax legislation tends to be very time-consuming. Even where all are agreed that a general tax cut is desirable, there is bound to be lengthy political pulling and hauling over just who gets what cut. Tax bills become vehicles for all kinds of unrelated tax proposals. The question becomes a part of the general effort for reform and simplification—an effort whose objectives we support wholeheartedly. But these are not matters for which there is any obvious solution or a readily achieved

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consensus. Thus, there is no guarantee that a cut can be enacted in time to moderate a possible economic downturn. Its effect would be likely to come after the economic weakness is behind us, and it could, then, exacerbate our serious inflationary troubles.

Whether or not additional fiscal stimulus is necessary, there is one measure which we recommend on its merits and which will have the effect of somewhat delaying collections of personal income taxes. This is correction of the substantial income tax overwithholding which currently takes place, particularly from salaries and wages going to single-earner households.

You will recall that in 1971, because of concern expressed about underwithholding on wages and salaries of dual-earner households, Congress amended the withholding provisions to provide withholding at a level considered appropriate for households where both husband and wife were working, or where a single wage earner held two jobs at the same time, as well as to reflect the maximum standard deduction. A mechanism was provided under which taxpayers with only a single wage or salary income could claim an additional withholding exemption, thereby eliminating the overwithholding which would otherwise result from the withholding tables' new assumption of dual incomes.

In practice, despite widespread publicity given to the right to claim the added exemption, many millions of people who are eligible for the added exemption have not claimed it, and have thereby experienced substantial overwithholding. In some cases there has been a conscious decision not to claim the added exemption, in order to use overwithholding as a method of savings. In many other cases, however, failure to claim the added exemption has undoubtedly resulted from lack of knowledge of the right to do so. The aggregate effect of the dual-earner assumption and the maximum standard deduction revision in the present tables is to increase withholding by about $6 billion a year over what it would be if we made appropriate revisions, and to increase tax refunds the following year by a similar amount.

We recommend to you that the statute be revised to remove this unintended overwithholding. This could be done very simply by revising the withholding tables to eliminate the dual-wage-earner assumption with respect to single-job workers, and to modify the assumption that deductions will be limited to the maximum standard deduction. This step is not only a sound approach to a problem about which we have been concerned since the results of the 1971 change became apparent, but also does not have any of the built-in disadvantages of a tax cut. It preserves fiscal discipline. We recommend this change on its merits and without regard to the stage of the business cycle at which it is enacted. At the same time, however, it would have an immediate one-time impact on spendable incomes and would produce moderate acceleration of demand. Thus, particularly for those concerned about demand deficiencies, this would appear to be a timely moment to make the needed change.

Exhibit 46.—Testimony of Assistant Secretary Hickman, March 20, 1974, before the House Ways and Means Committee, on tax incentives for recycling

The use of the tax incentives to encourage greater use of recycled materials has great initial appeal and the Treasury has studied a variety of approaches to that end. In each case, we have concluded reluctantly that the proposals would promote more mischief than recycling.

The question is not whether it is desirable to make careful and efficient use of our natural resources and to reduce waste and pollution. All of us agree that those objectives deserve our best efforts. Rather, the question is whether any feasible tax incentive would significantly increase the amount of materials recycled and reduce the amount of natural resources consumed.

Possible tax incentives for recycling fall into two main categories. One is the use of special tax deductions or credits to reduce the cost of scrap or other recyclable materials to processors of those materials. The other is the use of rapid amortization or tax credits to encourage capital investment in recycling facilities.

Tax incentives to encourage the purchase and use of recyclable materials

Where virgin materials are used in preference to recyclable materials, the reason almost invariably is that virgin materials are either cheaper or technologically superior. It is true that certain virgin resources receive tax benefits, such as percentage depletion in the case of minerals and capital gains in the case of timber. However, the evidence indicates that these benefits are far outweighed by other factors in choosing between using virgin and recycled materials. Since these tax benefits for virgin materials are only minor factors, enactment of similar or greater tax benefits for recyclable materials would not significantly change usages but would only serve to reduce the taxes of steel, paper, and other processors.

The argument for instituting new tax benefits for recyclable materials rests on the following assumptions:

1. That the tax benefit of percentage depletion and similar tax provisions flows through in the form of lower prices to users of virgin materials;
2. That the price advantage attributable to percentage depletion is significant in relation to price differences arising from nontax causes; and
3. The neutrality of tax treatment—by extending comparable tax deductions to recyclable materials—would alter choices between virgin and recyclable materials.

We agree with the first of the above assumptions, i.e., that percentage depletion results primarily in lower prices for consumers of the minerals involved. There are some, however, who believe that the benefits of percentage depletion accrue primarily to the producers of virgin minerals. But unless one believes that depletion flows through in the form of lower prices, it is difficult to make the argument that tax benefits for recycling are necessary to offset those lower prices.

It is the second and third of the assumptions with which we disagree. The evidence is that price advantages attributable to percentage depletion are not significant in relation to other price advantages and disadvantages, and, consequently, that tax "neutrality" would make very little, if any, difference in usage.

A few basic facts about the economics of recycling as related to steelmaking and paper manufacture will illustrate why that is true. Large amounts of scrap metal and wastepaper are already being used, but technology and relative raw material and conversion costs—not tax differentials—limit the substitutability and determine the mix of virgin and recycled materials.

For example, wholly without regard to the differences in tax treatment that exist, the lowest cost steel is produced by the modern basic oxygen furnace (BOF), which at maximum efficiency uses about 30 percent scrap. The estimated 1973 incremental cost of increasing the scrap input above 30 percent was $54.30 per ton:

	Cost of input to BOF (dollars per ton)*	
	Molten iron (from ore)	Scrap
Raw materials	$37.50	$81.30
Melting costs		6.00
Scraphandling		3.50
Furnace erosion		1.00
	37.50	91.80

*Data from Environmental Protection Agency "Report to Congress on Resource Recovery," Feb. 22, 1973, p. A-19, with raw material figures updated to 1973. The comparison is for substitution of an additional ton of scrap for a ton of molten iron above the normal 30 percent scrap charge of a BOF.

In contrast, the tax benefit accorded iron ore through percentage depletion is, generously estimated, less than $1.50 per ton of molten iron. Obviously, the extension to scrap of a mere $1.50 per ton tax benefit will not produce a greater substitution of scrap for ore.

In the case of wastepaper as a substitute for wood pulp, the same limitations of economics and technology prevail. The evidence is that, in general, costs are substantially greater when wastepaper is combined with virgin fibers. Only in the manufacture of newsprint does wastepaper hold the edge and that advantage is rapidly being diminished by the dramatic increases in wastepaper prices.

	Linerboard	Corrugating medium	Printing/ writing paper	Newsprint
Baseline case (recycled fiber content) percent..	0	15	0	0
Baseline average operating cost..per ton..	$78.50	$79.50	$80–$120	$125
Supplemental fiber use (recycled fiber content)..........percent..	25	40	100	100
Operating cost with increased use of recycled fiber..........per ton..	$82.25	$82	$100–$150	$98
Net cost of increased recycled fiber usage per ton..	$3.75	$2.50	$20–$30	−$27

Source: Midwest Research Institute. Economic studies in support of policy formation on resource recovery. Unpublished data, 1972.

The table shows that, with the exception of newsprint, the additional processing cost from using wastepaper ranges from $2.50 to $30 per ton depending on the paper product. In contrast, the tax benefit accorded wood pulp is only approximately $1 per ton.

It is clear from these examples that the tax law does not create any meaningful bias against recycled ferrous metals and wastepaper.

In the case of nonferrous metals such as lead, zinc, aluminum, and copper, ore costs are such a small part of total costs and the decontamination and other costs of using obsolete scrap ore so great, that a tax incentive for recycled materials would have virtually no effect on comparative product prices.

In addition to the question whether the tax law creates a significant bias *against* recyclable materials—which we believe clearly not to be the case—we have also studied whether a tax bias in *favor* of recyclables would result in substantially greater collection and use of solid wastes incinerated, buried, or left strewn over streets, parks, and the countryside. Again we have had to conclude that a tax incentive is generally not a practical device.

A notion of the huge tax incentive which would be required to produce a "cleanup" can be gained from looking at the increases since 1967 in prices of scrap as follows: Wastepaper, over 200 percent; scrap iron and steel, 163 percent; aluminum, 77 percent; and copper, over 100 percent. Yet even dollar incentives of this magnitude have not produced a cleanup. Between 1972 and 1973, prices of ferrous scrap metal increased 122 percent, but only 10 percent more scrap was brought to market for reuse and only an immeasurably small portion of that 10 percent seems likely to have been "environmental" scrap.

The reasons why even large price increases do not produce a cleanup are not difficult to comprehend. The supplies of scrap metals, wastepaper, and other solid waste might seem unlimited. In one sense they are. But presently, as in the past, all the economically accessible and readily useable wastes are already being used and are in great demand even at high prices. Most is essentially "home" scrap or "prompt" scrap resulting from steelmaking, metal fabricating, and paper manufacture. To expand this substantially to include great amounts of environmental scrap and waste requires tremendous additional costs to collect, sort, decontaminate, and ship—far beyond the capability of a tax incentive to provide.

In addition to the basic economic forces which overwhelm the tax incidents, there are also technical complexities which are so major that no potential user of recyclable materials would be able to compute with precision the price subsidy he would obtain. Yet without knowing the amount of tax subsidy, he cannot tell whether operation will be profitable and thus will have no incentive to commence.

The problems are essentially the same as the so-called cutoff problems which arise in the case of percentage depletion, which have been the subject of controversy for many years. The problems arise because the tax deduction or credit is measured as a percentage of value and the question is, value of *what?* In the case of minerals, depletion is allowed as a percentage of the gross income from mining and the issue is the point at which mining ceases and processing begins. Large dollar amounts can be involved. Essentially the same problems would exist with respect to recyclable materials. In the case of scrap metal, for example, it would be necessary to decide the point at which the activities comparable to mining ceased. Is that point when materials have been collected? when they have been processed? transported? or introduced into a manufacturing process? And if the material is purchased at some point beyond the cutoff point, how do you back out the unallowable portion of the price? Some of the kinds of questions which must be answered would include: Definition of the materials qualifying for the deduction or credit; criteria for determining when the incentive should be extended to additional materials and when it should be suspended or terminated for a given material; determinations as to the point at which materials are discarded or become waste for purposes of the incentive; allocation of a lump-sum purchase price between qualifying and nonqualifying items.

Even if it were possible to devise an administrable incentive for recyclable materials large enough to make a meaningful difference—or even if it were desired to provide a modest tax benefit for recyclable materials for the sole purpose of eliminating any theoretical lack of tax neutrality—the incentive would operate properly only with constant government review and revision. Thus while in some cases it might be possible to achieve neutrality of tax treatment between recycled and virgin materials at one day's prices, that neutrality might be lost at the next day's prices. Assuming comparable "depletion" rates were established for recyclable materials, if prices for recyclables increased as against virgin materials, the rates would be excessive; if prices decreased the rates would be inadequate.

Tax incentives to encourage investment in recycling facilities

Other proposals deal with tax benefits for capital investment in recycling processes rather than for the costs of operating those processes.

One such proposal is that the costs of recycling facilities be amortizable over a 5-year period. Further, it is proposed that qualifying facilities generally should not be limited to those which use recyclable materials but should embrace a wide range of other activities, including collection, sorting, packing, and transporting the recyclable materials.

The first consideration is the extent to which tax incentives for investment in recycling facilities can be expected to be effective. Second, is 5-year amortization an efficient tax incentive for this purpose?

As to the first issue, the answer must be presented in two parts. With respect to processors—steel mills, paper mills, copper and other metal refiners—a tax incentive which reduces capital costs would have an effect. It is well known that these industries are capital intensive. A large and, therefore, meaningful reduction in capital costs will translate into a significant reduction in prices for the particular finished products. Those price changes should increase consumer demand. Thus, if an investment incentive were given to these industries, it is predictable that their production would be expanded. The problem then is how to ensure that such an expansion of capacity will result in substitution of recyclables for virgin materials.

In steel and paper making, for example, it is generally possible to use different mixes of virgin and recyclable materials. Would the investment incentive be available for the entire cost of a new steel or paper mill? If so, the incentive would merely operate to lower the price of the product, regardless of the raw material used.

On the other hand, such an incentive could be designed so that only the portion of a facility which converts waste materials to raw materials or adapts the facility to use more waste materials would qualify. This presents the question—already considered in the pollution control context—of who will reliably certify the portions of a facility which qualify. There is the additional question of whether onsite inspections or other administrative steps would be necessary to ensure that any facility or portion thereof certified would not in fact later use cheaper virgin materials. We are not persuaded that these problems are insurmountable, but they are sufficiently difficult to require careful consideration before the incentive is proposed.

With respect to activities other than processing—such as waste collection, sorting, decontamination, and shipping—it is doubtful that tax incentives for capital investment can have any significant effect. The principal costs involved are labor costs—people must pick up the trash and sort it. Rapid amortization of vehicles and machinery can have little effect on the cost of gathering and transporting recyclable materials.

Finally, if an investment incentive is to be provided, the question is whether 5-year amortization is an appropriate vehicle. The benefit of a 60-month writeoff for the cost of a depreciable asset varies directly with the expected life of that asset—the longer the depreciable life, the greater the benefit.

The following table demonstrates the differential effects of substituting a special 60-month amortization for the general investment incentives for machinery and equipment now provided by the class life (ADR) system of depreciation and the 7 percent investment tax credit.

Changes in capital costs if 5-year amortization is substituted for present tax treatment of investment in depreciable assets for five industries that are potential users of recyclable materials

Scope of proposed change	Percent of change in capital cost as compared with present law [1]				
	Textiles	Paper and allied products	Rubber and plastic products	Stone, clay, and glass	Primary metals
5-year amortization:					
Machinery and equipment only:					
Without investment credit	+2.7	−0.2	+1.7	+2.6	−1.7
With investment credit [2]	−3.0	−6.4	−4.0	−3.4	−8.4
All depreciable assets:					
Without investment credit	−2.8	−4.6	−4.0	−1.7	−5.4
With investment credit [2]	−9.2	−11.4	−10.3	−8.2	−12.6

[1] Present law treatment includes use of ADR and the 7 percent investment credit, adjusted for expected lives of assets, for machinery and equipment only.

[2] Investment credit of 7 percent, adjusted for expected lives, for machinery and equipment only.

NOTES.—Asset acquisitions have been distributed by ADR class, depreciation periods used by industry in accordance with data collected by the Office of Industrial Economics. The computed equivalent changes in prices of all depreciable assets assume a 10-percent-after-tax rate of return.

You will note that the combination of ADR and the investment credit is more advantageous than 5-year amortization in three of the five industries. It would, of course, be possible for Congress to allow both amortization and the credit, or to extend 5-year amortization also to buildings. But that would set a major precedent to lead to pressures for similar benefit increases in other areas for which 5-year amortization is now provided, e.g., pollution control equipment, railroad rolling stock, and mine safety equipment. It seems doubtful that recycling is the most worthy case for double benefits.

In summary, for the reasons indicated, the Treasury believes that it would be most unwise to enact new incentives to subsidize directly the costs of acquiring recyclable materials. It might be possible to develop a practical incentive for capital investment to convert waste products into raw materials or increase the amount of solid waste which a plant can utilize. This incentive would, however, be limited by the basic constraints of technology and price differentials already discussed. We do not urge such provisions and are inclined to believe that they would be basically ineffective. However, they would be far preferable to subsidies for recyclable materials, if that is the alternative.

Exhibit 47.—Statement of Secretary Simon, June 5, 1974, before the Senate Finance Committee, on proposed amendments to the tax laws

I am pleased, as always, to appear before this able and distinguished committee. At the same time, however, I must express concern that I am here because major tax measures have been proposed for floor action, before the careful committee consideration and staff work which such measures need.

Many of the measures proposed would alter provisions that are fundamental in the present structure for taxing business income. Fundamental changes are not necessarily bad. But when they are made, it is important that they be made carefully and that they not be made in a manner so abrupt that taxpayers are unable to digest them. Abrupt dislocations cause economic slowdowns from which no one benefits. Uncertainty alone can cause those major dislocations. When the ground rules become uncertain and the future becomes clouded, businessmen postpone decisions and wait for the outlook to become clearer and more favorable. A chain reaction follows. Modernization and expansion are held in abeyance. Purchases are not made. Sellers, faced with lesser sales, cut back in their operations. Workers are laid off, and so on. Taxes are a very major cost, and changes in taxes create very major uncertainties. They must be approached with care.

The administration strongly supports tax reforms. Over a year ago, we proposed a carefully designed package of changes. Those proposals were presented originally to the Ways and Means Committee of the House. In December, we made additional proposals to tax the windfall profits earned by domestic oil producers on the sale of oil to their fellow Americans.

The Ways and Means Committee has now worked carefully through the windfall profits proposals and has ordered a bill reported. It is now in the midst of considering a wide range of additional tax reform measures and expects to report a major bill by the end of this month. Weeks of committee time and thousands of man-hours of staff time have gone into those efforts in order to produce balanced and technically sound legislation. In normal course these measures should be out of the House and before your committee and the Senate in a matter of weeks, so that you may consider and adopt legislation for final passage in this Congress. That is the way major tax measures have proceeded in the past, because it is the best way to assure thoughtful and responsible tax legislation.

In 1969, the revisions in our tax laws took nearly a year, while the tax-writing committees explored the changes proposed with their professional staffs, with the Treasury staff, and with affected members of the public. Tax revision is a complicated and critical task, and we need to work together and do it in a thoughtful way.

The amendments to H.R. 8217 proposed in the Senate include a wide array of proposals for fundamental changes in the existing system. I could not possibly cover with you today all of the pros and cons of the proposals. Many involve technical problems which you ought to explore with members of your own staffs and the Treasury's staff who are more versed in the intricacies of the tax law than I. I should like, however, to make a few general comments about the proposals.

Proposed amendments of the minimum tax

The proposals with respect to the minimum tax are poor amendments to a poor provision of existing law. They would do more to thwart tax reform than to further it.

The present minimum tax was enacted in 1969. It was supposed to prevent persons with large economic incomes from using tax preferences to eliminate or unduly reduce their tax liabilities. The intent was that they should pay some "minimum tax."

The problem with the present minimum tax is that it does not work. A large number of persons with high incomes still pay little or no tax. It is pertinent to note that this ineffectual provision was the product of Senate floor action.

The problem with the proposed amendments to the minimum tax is that they will not work either. The amendments proposed are (a) to reduce the $30,000 exemption to $10,000, and (b) to eliminate the offset of taxes paid against tax preferences. These amendments would collect more tax, but they would not get at the problem of the high-income taxpayer who pays no tax. The principal effect of the proposals would be to increase, in a somewhat haphazard way, the tax on capital gains. Your committee may well conclude that some change in the taxation of capital gains is desirable, but that is a different problem from assuring that people with high incomes pay some minimum amount of tax.

Not only do these amendments not do the job, they create new problems and would be objectionable for that reason alone:

Reducing the $30,000 exemption to $10,000 causes the minimum tax to apply to middle-income persons who are already paying substantial income tax and play no part in the high income-low tax problem.

Eliminating the offset for income taxes paid converts the so-called minimum tax into an additional tax. Under the present minimum tax, taxes paid are deducted from total preferences, which tends in a rough way to impose further tax on persons who are already paying more than a "minimum" amount. The proposed change would render irrelevant the amount of tax already paid and would thus impose a "minimum" tax even on persons already paying large amounts of tax. Paradoxically, the proposed change would have little or no effect on persons who now pay little or no tax, but would penalize most of those who already pay the most.

I urge your committee, as strongly as I can, to approve—when you receive the tax reform bill from the House—the two proposals which the Treasury has developed to replace the present ineffectual minimum tax. The first of these proposals is a "minimum taxable income" (MTI) provision. It would require high-income individuals to pay a reasonable and fair share of income tax. The second is a proposal for a limitation on artificial accounting losses (LAL). It would limit so-called "tax shelters," which permit economically profitable ventures to report tax losses which can offset other taxable income.

I shall not attempt here to explain how those proposals work, except to say that they focus more carefully on a wider range of items than the present minimum tax. The 1974 Report of the Joint Economic Committee compared the present minimum tax with the Treasury approach and concluded as follows:

> The Administration's minimum income tax proposal (MTI) . . . should be given priority in the interest of improving tax equity, of restoring taxpayer confidence in the tax system and of raising additional revenue.

The following comparisons illustrate the greater effectiveness of the Treasury's proposals over the present minimum tax and the proposed Senate amendments:

	Treasury's MTI/LAL	*Present minimum tax*	*Proposed amended minimum tax* [1]
Revenue gain from individuals ($ billions)	$1.5	$0.2	$0.7
Average tax increase for high income-low tax individuals above $100,000 adjusted gross income	$33,000	$9,400	$11,000
Effect on 92 taxpayers in 1972 who had adjusted gross income of $200,000 or more but paid no tax	69 out of 92 required to pay tax (average tax of $61,600)	No effect	Only 12 out of 92 required to pay tax (average tax of $9,700)
Effect on tax shelters in oil, real estate, etc., which are a major source of the high income-low tax problem	Eliminates tax shelters	No significant effect	No significant effect
Rates of tax	Regular graduated rates from 14 to 70 percent	Flat rate of 10 percent	Flat rate of 10 percent

[1] Would also raise about $800 to $900 million from corporations (an additional $300–$400 million over present law) if percentage depletion is not repealed but would raise much smaller amounts if percentage depletion is repealed. The Treasury would retain the present minimum tax on corporations.

Proposals to revise taxation of income from business capital

Two of the proposed amendments would drastically change the terms on which business investment decisions are made. One would lengthen the cost recovery periods permitted under the ADR depreciation system; the other would greatly diminish the scope of the investment credit. Before reviewing each of these proposals which would amend portions of the Revenue Act of 1971, I would like to discuss the aims of the legislation of that time.

The year 1971 was not a good year: unemployment ran at a rate of nearly 6 percent for the year; industrial production was stagnant, running at a rate nearly 4 percent below the peak of 2 years before; and capacity utilization was fully 12 percent lower. In considerable part, this condition of the economy could be attributed to the overall effects of the Tax Reform Act of 1969 which had repealed the 7 percent investment credit and otherwise increased the tax burden on business capital while reducing taxes on personal income. Just as Secretary Kennedy warned this committee, the House-passed bill was imbalanced in its effect on consumption and saving, and we are still suffering the consequences.

In response to the need to stimulate business investment, the administration proposed two bold steps in 1971: a radically new depreciation procedure designed to reduce uncertainty faced by investors, and reinstitution of the investment credit. The record shows these were successful:

- Unemployment declined steadily to a rate well below 5 percent before the decline was interrupted by the energy crisis last winter.
- Investment increased by 9 percent in 1972 and 13 percent in 1973.
- Industrial production increased by nearly 19 percent in 2 years, and capacity utilization rose substantially, by 10 percent.

But the need for a high rate of capital formation has not terminated. Now, even more clearly than in 1971, we see the need for additional investment:

- Since 1971, additional demands for capital investment by U.S. industry have been imposed by the drive to achieve improvements in the environment. Just to stand still and employ no more workers or produce no more goods and services than presently, U.S. industry will have to invest more in order to achieve the required reduction in air and water polluting emissions.

- Although currency revaluation has appreciably improved the competitive position of U.S. industry, the fact remains that, as compared with its major foreign competitors, U.S. industry is less modern. If we are not to fritter away the opportunity to maintain and increase our share of world markets, we must continue to foster a high rate of investment in manufacturing, one of the sectors in which we possess a comparative advantage.
- Having been rudely reminded of the importance of maintaining a higher degree of energy self-sufficiency, particularly in oil, we have launched Project Independence. This will call for vast additional investment in coal mining, coal and oil shale processing plants and a new logistical network to bring these resources to market.
- Many of our basic materials producing industries have found their existing plants inadequate to supply the growth in demand—for domestic use as well as exports. Order backlogs for durable goods are up by more than 40 percent over 1973. Textile, paper and pulp, chemicals, and metals producers have been operating at near capacity, with backlogs and bottlenecks, notwithstanding increases in capacity of nearly 13 percent since 1971.

Proposals to cut back ADR.—One of the proposed amendments would lengthen the cost recovery periods permitted under the ADR depreciation system, thus decreasing depreciation deductions. The result would be to discourage investment in new productive capacity, to decrease productivity, and to increase inflationary pressures. That would be absolutely the wrong direction in which to move, and today would be absolutely the worst time to move in that wrong direction.

The ADR system specifies an average life for each asset class and permits taxpayers to select an appropriate life within a range above and below that average. The system recognizes the plain fact that there is no way to know today just how many years into the future an asset—particularly a long-lived asset—will be used. At best, we can achieve rough approximations. In a world of rapidly changing technology and obsolescence, the past is apt to be a poor guide to the future. Latitude for human error and difference of opinion must be allowed. The inescapable fact is that investors must be convinced that they will be able to recover their costs over reasonable periods or they will not invest. The higher the rate of inflation and the longer the life is expected to be, the more critical is this problem.

The ADR system was enacted in 1971 and is a structural reform of great importance in dealing with the tax aspects of investment in machinery and equipment. It permits business to make investment decisions with certainty about the depreciation deductions which will be allowed. In addition it provides for a reasonable degree of uniformity in cost recovery practices within given industries. Neither certainty nor uniformity was available under the previous system. Both facilitate investment in productive capacity.

The ADR system provided flexibility and updated guideline lives which were 10 years old at the time the system was adopted. The lives and the system are under continuing study by the Office of Industrial Economics, set up in the Treasury in 1971. We believe that the system has functioned well, that it provides reasonable cost recovery periods, and that it has encouraged needed modernization and expansion.

Postenactment experience with ADR data indicates that the amount by which cost recovery periods were shortened was less than half the amount originally expected. Nearly 40 percent of the depreciation base is even now accounted for on a "facts and circumstances" basis, thus indicating that ADR cost recovery periods are in fact in a reasonable middle range. To now lengthen the periods would simply return the bulk of taxpayers to a facts and circumstances system, in which they would be required to haggle with individual revenue agents. Many, if not most, would reach nearly the same result provided by ADR, but would lose the uniformity and certainty which the ADR system now provides. It should be noted in this connection that the first year revenue gain which would follow from the proposed amendment is about $400 million, rather than the $800 million figure cited by proponents of the amendment.

No doubt the ADR system can be improved and no doubt adjustments in particular lives can and will be made. But they should be made after analysis of the experience since 1971 and after consideration of the facts of particular industries. Enactment of arbitrary, blanket changes in the system would be extremely unfortunate and would further cloud the climate for the investment and increased productivity required to dampen inflation.

Phaseout of the investment tax credit.—The other pending proposal is to phase out the investment tax credit as the cost of the qualifying property increases. We believe that proposal to be unsound from both a tax policy and tax administration standpoint. We strongly oppose it.

I have already recounted the increase in investment which followed reinstitution of the credit in 1971. Now, even more clearly than in 1971, we see the growing need for additional investment to increase our basic capacity and to effect changes we all wish to bring about in our environment. To suspend or repeal the investment credit even in part would simply compound the difficulties we must overcome.

The proposal to graft on to the investment credit an exception for property costing in excess of $50,000 or $100,000 is unwise because:

- The exception is not a small business exception. A large business could obtain a full credit on millions of dollars of property so long as each piece of property had a cost basis of $50,000 or less.
- Under the exception there will be an economic incentive for purchase of property which is sold for less than $50,000 and none for purchase of property which is sold for more than $100,000. Why?
- The exception will repeal the investment credit or retain it in a completely haphazard fashion. Some businesses will be unaffected by the repeal of the investment credit because they buy many pieces of equipment each costing less than $50,000. Others will get very little investment credit because most of the equipment they buy costs more than $100,000.
- The exception would be a very difficult rule to administer. What standards are to be used by taxpayers and the IRS in determining whether two pieces of machinery, each costing $50,000 and sitting side-by-side on the factory floor, should be considered as one piece of investment credit property, in which case there is no credit, or as two pieces of investment credit property, in which case there is a $7,000 investment credit?

As the Treasury has consistently stated, the investment credit is a fiscal device for reducing the cost of capital investment in order to stimulate that investment. It will only serve this function if investors can count on it. If investors believe that Congress will forever be taking it on and off, on some assets or all assets, the investment credit will become too uncertain, investors will not rely on it, and the stimulus effect will be greatly diluted or lost entirely.

The investment credit should be left alone.

Proposals to repeal percentage depletion

We estimate that at current price levels the elimination of percentage depletion for oil and gas would raise revenues $2 billion per year. Revenue effects of various phaseout plans vary with the number of years included in the phaseout and the number and type of exemptions from phaseout. For example, the Ways and Means Committee phaseout plan would produce revenues of $130 million in 1974, $860 million in 1975 and so on, until it reaches $3 billion in 1979, by their staff estimate.

The additional tax revenues will come from tax payments by oil producers and, in the short run, will lessen their profits. In the longer run, however, if we maintain some given degree of self-sufficiency, removal of percentage depletion will result in higher prices to consumers. The principal beneficiaries of the percentage depletion deduction have not been the shareholders of the oil companies, but rather the consumers of oil and gas who have enjoyed larger supplies and lower prices than would otherwise have been the case.

The Treasury is opposed to change in the percentage depletion allowance at this time. Our oil and gas shortage is critical, and this is the wrong time to make a fundamental change in the economics of the oil and gas industry by eliminating percentage depletion. The oil and gas industry has relied on percentage depletion for 48 years in making billions of dollars of investments and in formulating billions of dollars of investment plans to move the United States toward energy self-sufficiency. Capital investment that is available to go into oil and gas exploration and development will be discouraged by fundamental tax law changes at this time. The extent of this harm to the industry cannot now be safely predicted, and we simply cannot afford to be wrong.

Another consideration is that the adverse effects on capital investment from elimination of percentage depletion may fall more heavily on the independent oil producers than on the major oil companies because the present depletion allowance is worth more to individual taxpayers in brackets above 50 percent than it is to corporations in 48 percent brackets. Many independents rely on that fact in raising capital. (Even if the aggregate present benefits of depletion were translated dollar for dollar into higher prices, the industry as a whole would be unaffected. However, high-bracket producers to whom the deduction was worth more than the price increase would be somewhat disadvantaged, and lower bracket producers to whom the price increase was worth more than the deduction would be somewhat advantaged.)

Elimination of percentage depletion imposes a further penalty on owners of controlled oil. Controlled oil already bears a price penalty of over $4 per barrel compared with the $9 and $10 per barrel prices we pay to Canadian, Indonesian, Middle Eastern, and South American suppliers. The removal of percentage depletion would be equivalent to a rollback of 55 cents a barrel to $4.70 from the present average of $5.25. That rollback would apply to roughly two-thirds of the oil produced in the United States and could eliminate some production we are now getting.

Elimination of percentage depletion for natural gas is even more difficult to justify. Most, if not all, of the proposals to eliminate percentage depletion for natural gas recognize that most gas prices are controlled at low levels already by the Federal Power Commission and by long-term gas sale contracts. Therefore, these proposals exempt controlled gas from the depletion phaseout. Our present system of pricing natural gas is illogical and wrong, and widespread gas shortages have been caused as a result. We are certainly not going to encourage the finding of any additional natural gas supplies by eliminating percentage depletion on a major fraction of the gas produced today. The prospect is that such action will further discourage the drilling of gas wells when we already have a major shortage of gas.

You have asked that we address specifically the 3,000 barrel per day exemption from the phaseout of percentage depletion. I have already indicated that we do not favor elimination of percentage depletion. If it is to be eliminated, however, it is difficult to justify nonuniformity in treatment of producers, except perhaps on a transitional basis. Further, to make the 3,000 barrel per day exemption meaningful, there have to be complex rules which prevent the same economic unit from having the benefit of more than one 3,000 barrel per day exemption. These rules can never work perfectly and some people are not penalized who should be and, what is even worse, others who should not be affected at all are penalized by the rules.

In addition, if a barrel of oil is worth $5.20 after tax in the hands of producer A, who has no depletion, but is worth $5.92 after tax to producer B, who still has 15 percent depletion, producer A will tend to sell his oil property to producer B, since the oil is worth more to producer B than A. The price A receives from B tends to reflect the higher value of the oil in the hands of B—i.e., it tends to reflect the 15-percent depletion allowance. The result is that A gets a higher price and B gets percentage depletion and thus both tend to have the benefit of the 15-percent depletion allowance, but a lot of transfers of property for no sound, underlying economic reason will have occurred. We should avoid creating problems like this with the tax laws wherever possible.

In summary, we believe it would be a mistake to eliminate percentage depletion, but if it is to be done, we believe that generous transition periods are an absolute essential.

Foreign mineral income and the foreign tax credit

Amendments have been proposed which would repeal foreign percentage depletion and the current deduction for foreign intangible drilling costs, require a separate foreign tax credit limitation for foreign mineral income, and direct the Secretary of the Treasury to establish criteria to prevent oil royalties from being treated as creditable income taxes.

Although the administration opposes repeal of percentage depletion for domestic oil and gas, we have proposed that foreign percentage depletion be eliminated, and the Ways and Means Committee has incorporated this proposal in the Oil and Gas Energy Tax Act of 1974. We have no objection to the Senate acting on this provision independently, although it would seem more appropriate to deal with it in connection with the Energy Tax Act.

We oppose the elimination of the deduction for foreign intangible drilling expenses. Unlike depletion, intangible drilling expenses represent actual current cash outlays. Present law permits current deduction of such expenditures, whether at home or abroad. The proposed amendment would require such expenses to be capitalized and recovered through ordinary depreciation deductions. The present treatment is far simpler and does not make foreign operations more attractive than domestic operations.

On the other hand, we do not believe our tax laws should encourage foreign exploration more than domestic exploration. Net foreign losses can be and have been used to reduce U.S. tax on U.S. source income. A loss recapture provision, recommended by the administration in April of 1973 and included in the Energy Tax Act, is an effective means of equalizing the tax treatment of domestic and foreign oil production. Under our proposal, foreign losses which are deducted against U.S. income would be recaptured in later years when foreign income is realized. The mechanism for the recapture would be to reduce the allowable foreign tax credit in those later years. The effect of our proposal would be to prevent the interaction of the United States foreign tax credit and the often somewhat arbitrary tax laws of foreign oil-producing countries from unjustifiably reducing U.S. tax revenue on foreign source oil income.

Another proposed amendment would establish a separate foreign tax credit limitation for foreign taxes imposed on mineral income, including oil production. The objective of this amendment is to prevent a foreign tax credit attributable to mineral income from reducing U.S. taxes on other foreign income.

In February 1974, the administration proposed the elimination of excess credits arising from foreign taxes on oil production income. We believe that our approach is preferable.

The Energy Tax Act as reported by the Ways and Means Committee contains still another approach to this problem. It would limit the available amount of excess credits attributable to foreign oil production income to 10 percent of the U.S. tax on that income. It would also restrict the use of those excess credits to "foreign oil related income." We believe that our approach is preferable, but we recognize that the issue is complex, and intelligent decisions can be made only after considering all of the ramifications of the problem and the several alternatives.

The last proposed amendment in the mineral area would direct the Secretary of the Treasury to establish criteria to determine what portion, if any, of payments made to foreign countries in connection with oil or gas income is in fact a royalty payment. The effect of characterizing a payment as a royalty rather than a tax is that a royalty is only deductible from gross income while a tax may be creditable.

There is a problem in this area. But the amendment provides no standards for reaching a solution. Many foreign countries which have petroleum reserves have substantial latitude in structuring their tax laws so that payments will qualify as creditable taxes rather than deductible royalties. This latitude also makes it virtually impossible and certainly self-defeating to establish the types of criteria the proposed amendment demands. As soon as criteria were established, those foreign countries would change their tax systems to qualify.

The administration's February proposal limited the available foreign tax credit on oil production income to the present U.S. statutory rate. This ensured that the oil companies would not be subjected to double taxation, but also ensured that these foreign levies would not be used to reduce U.S. tax on other foreign income.

Foreign losses

The proposed amendment on recapture of foreign losses would reduce the allowable foreign tax credit where a previously incurred loss has reduced U.S. income. As I mentioned earlier, the Treasury Department made a similar proposal in April of 1973. This spring the Ways and Means Committee applied this proposal to oil companies in the Energy Tax Act and has tentatively decided in the pending tax reform legislation to extend it to all companies.

Here again we have no objection in principle to the proposed amendment.

But we do have various technical problems with the specific language proposed. We are now working on these problems with the Ways and Means Committee, and expect to be working with your committee in due course.

Income of foreign subsidiaries

In general, the foreign income of foreign corporations controlled by U.S. owners is not taxed by the United States until repatriation in the form of dividends. This is an extension of the basic tax principle that shareholders are not taxed on dividends until they receive them. Another proposed amendment would end this system by taxing the shareholders of all U.S.-controlled foreign corporations as if they had received the income of the foreign corporations even though it was not distributed to them.

The Treasury Department opposes this approach. We believe it would make our industries less competitive with those of other countries. No other country imposes its tax in such a manner.

A primary effect of the proposed amendment may be to *increase* the amount of tax paid *to foreign countries*. Since the parent corporation would be subjected to U.S. tax on subsidiary's profits, it is likely to cause the subsidiary to remit those profits. As actual dividends, these profits would in most countries be subjected to foreign withholding tax, thereby increasing the foreign tax revenue and increasing the foreign tax credit applied to reduce U.S. taxes. The after-tax profits could then be returned to the foreign subsidiaries as working capital.

Although we oppose the complete elimination of deferral, we believe there are certain situations where deferral is not justified. In April 1973, the Treasury Department proposed legislation which would eliminate deferral where the foreign subsidiary receives a "tax holiday" from the foreign country as an inducement to locate there or where the domestic parent decides to manufacture abroad products it intends to sell in the United States. We believe these proposals are sufficient to limit unjustified deferral of U.S. taxation. The Ways and Means Committee is presently considering action in this area and we hope will eventually adopt an approach similar to our April 1973 suggestion.

DISC

The Domestic International Sales Corporation (DISC) legislation was adopted in late 1971 as an incentive to exporting U.S. products. It was also designed to encourage the retention and modernization of domestic production facilities and to allow smaller domestic corporations to receive tax benefits equivalent to those available to larger corporations which could locate production facilities abroad. One of the proposed amendments would repeal this legislation.

The Treasury Department opposes elimination of the DISC provisions.

While it is difficult to measure the magnitude of DISC's effect on exports, it was anticipated that its incentive value would be felt only over time as U.S. manufacturers became more export conscious and the tax benefits of DISC were actually understood and realized. Thus, while there were only approximately 2,000 DISC's by the end of 1972, there are now over 5,000 DISC corporations in existence, many of which are owned by medium or small parent corporations. At the present time, only the relatively incomplete statistics for 1972 are available on the effects of the DISC legislation. However, as the April report issued by the Treasury Department demonstrates, the available information does indicate that DISC did increase the level of U.S. exports. While the revenue cost was larger than estimated, we believe this was primarily attributable to the unexpectedly large profits realized on exports in 1972.

U.S. exports have increased drastically in the past 2 years. However, so have imports, and there is no assurance that the surplus experienced in 1973 will continue. Therefore, we believe it unwise to eliminate this export incentive after so brief a trial period, especially when other industrialized nations are making substantial efforts to increase their share of world export markets. It should be noted that the Ways and Means Committee did not adopt the suggestion of some of its members to repeal DISC in its recent review of the legislation. It did, however, tentatively decide to limit its benefits by excluding agricultural and natural resource exports.

Altogether, the pending amendments, if enacted, would effect a fundamental transformation of many aspects of our existing system of taxation. We must realize that these proposals will have very profound effects on our already highly strained economy. Jobs are at stake. Our ability to control inflation is at stake. It is a time for exceedingly careful deliberation and careful change.

The very basic decisions involved in the pending amendments affect billions of dollars of investment and profits. I have recounted for you above the major surge of investment and new productive capacity which followed the Revenue Act of 1971 which enacted ADR and reinstated the investment credit. I could also recount for you the decline in investment following the Revenue Act of 1969, which repealed the investment credit.

Conclusion

In closing I would emphasize that changes in our tax laws such as those discussed with you today should only be made after careful committee consideration of the full impact they would have on our economy. Satisfactory economic growth depends to a significant extent on public confidence that our system for making major changes in our economic policy will be allowed to work. Let us all work together to restructure our tax system carefully. We must consider all proposals for tax reform fully and fairly and to shape our tax policy in coordination with the long-range objectives of our total economic policy. We stand ready and willing to cooperate with you in that effort.

International Monetary and Investment Affairs

Exhibit 48.—Statement by Under Secretary for Monetary Affairs Volcker, July 19, 1973, before the Subcommittee on International Finance of the House Banking and Currency Committee, on progress toward international monetary reform

In the year since the subcommittee's earlier hearings on progress toward international monetary reform, important steps have been taken toward the negotiation of a reformed world trade and payments system. New measures have also been introduced for handling the immediate monetary problems which nations faced. Consequently, the formal negotiating process has been paralleled by a pragmatic, evolutionary process. I believe these processes properly should react upon each other; in the negotiating process we should be sensitive to the political and economic realities exposed by events, while our reactions to those events should be shaped with an awareness of our longer run goals for the monetary system.

The main steps taken during the past 12 months to move toward reform are, I am sure, already familiar to the subcommittee.

In July of last year, agreement was reached on a forum for the reform negotiations—the Committee of Twenty—and the scope of their deliberations. This important procedural move gave assurance that the reform effort would be a comprehensive one, that the negotiations would be undertaken at a politically responsible level, and that the forum would be a limited but broadly representative group. The main technical work has been done by a subordinate committee of the Committee—the so-called Deputies—under the chairmanship of Jeremy Morse, formerly an executive director of the Bank of England.

In September, Secretary Shultz, building in part on the expressed views of other nations, tabled a comprehensive and interlocking set of reform proposals. These proposals have since been elaborated in further detail. They take as one point of departure the concept that a system of stated exchange rates—par or central values—supported by convertibility into an international reserve asset should be the "center of gravity" of the new exchange rate regime. However, a substantially greater degree of flexibility in exchange rate practices than characterized the Bretton Woods system would be permitted, partly through wider margins around par values and partly through permitting countries to float in some circumstances under appropriate IMF surveillance. To support this exchange rate framework, the proposals envisage more effective disciplines to encourage prompt and effective restoration of balance in international payments, partly through the use of fluctuations in levels of international reserves as an "objective indicator" of adjustment needs. I believe these proposals set forth a balanced, effective, and logically consistent system that would provide equitable and evenhanded treatment to all nations.

These American proposals have provided a focus for much of the discussion. While no equally comprehensive set of proposals has been advanced as an alternative, other countries have pressed for modifications in some features; in some instances, they have set forth more sharply different views on one aspect or another of the system. A tentative "outline" has been developed for discussion purposes, attempting to identify points of consensus as well as the differences to be reconciled.

I should also note that in two areas closely interrelated to monetary reform—trade and investment—new important initiatives have also been launched in the past year.

In May of this year, comprehensive trade legislation was submitted to the Congress, to give the President necessary tools to engage in multilateral trade negotiations scheduled to begin formally in September. Other nations are also in the process of developing negotiating approaches. Consequently, prospects remain favorable that, as we reach conclusions on the monetary system, we can look forward to a reduction of trade barriers and the introduction of fair trading rules consistent with the objectives we seek in the new monetary order.

Earlier this month, after extensive discussion, the OECD agreed upon a wide-ranging work program, that we hope can break new ground with respect to the issues associated with international investment, complementing the review of trade and monetary rules.

I believe the Committee of Twenty is tackling the challenge of monetary reform in a workmanlike way. While frequency of meetings is no measure of progress, it is perhaps a useful yardstick of the intensity and breadth of the effort. Since September the Deputies, coming together each month or two, have met for 15 days; several technical groups have prepared papers between meetings; and the Ministers have themselves held two meetings. A third Ministerial working session is scheduled for the end of July.

I can well understand the concern and impatience for more visible evidence of concrete accomplishment in the form of a finished agreement. However, I have never felt it realistic to believe a new agreement governing our monetary relationships for a generation could be hammered out in a matter of weeks or months. The work of the past year has been, I think, an essential prerequisite for ultimate success: the debating of different concepts of reform; a technical analysis of alternative mechanisms; and a useful cross-fertilization of ideas and viewpoints. In the process, much has been learned by all the participants, and much of the underbrush cleared away, so that we can understand the fundamental points of consensus and where basic disagreements may still lie. It seems to me essential, too, that both legislative and public interest be better focused on these issues, for agreements on the monetary system have important implications for the conduct of national economic policies and the relationships among nations.

As part of the clarification of views on all sides, I believe there is now better understanding of certain points that we have emphasized in presenting our own proposals. Most importantly, we have insisted that the various elements in the monetary system—convertibility, the exchange rate regime, the adjustment process, and the supply and the nature of international reserve assets—must be developed as part of a balanced and consistent whole. Thus, if a system of convertibility is to work effectively, we need a technique for assuring that the incentives to adjust apply not just to deficit countries losing reserves, but even-handedly to surplus and deficit countries. The tolerance we wish to permit for temporary imbalances in the system—and some tolerance is necessary—must be consistent with the availability of reserves to finance imbalances. There must be a broad consistency between the amount of reserves that countries in practice wish to hold and the availability in the system of such reserves. The assets used as international reserves should not be subject to speculative distortions, and must be available for nations to use freely and flexibly.

Unless a new monetary system achieves such balance and consistency, new strains and breakdowns seem sure to arise. The necessary disciplines and pressures will bear unevenly on different countries. Instead of assuring a new stability, we will inadvertently create uncertainty and political tension.

I believe it is fair to say that the members of the C–20 in principle have already reached certain more or less unanimous conclusions. We are joined in a search for more effective mechanisms to assure more timely and effective balance of payments adjustment operating symmetrically on both surplus and deficit countries—the lack of which contributed heavily to the breakdown of the Bretton Woods system.

There is a general willingness to accept the proposition that international incentives and pressures may be necessary to "discipline" the adjustment process. At the same time, most countries want to leave in the hands of individual countries as wide a range as possible of discretion as to how the adjustment is made—while discouraging those forms of adjustment that damage the fabric of international trade and payments.

We have agreed that the exchange rate regime should be based on stable but adjustable par values, with floating rates a useful technique in particular situations. We have agreed that there should be better international management of global liquidity, that the role of gold and reserve currencies should be reduced, and that a modified SDR (perhaps renamed) should become the principle reserve asset. We have agreed that more effective means are needed to deal with problems of short-term capital flows, although a considerable amount of disagreement remains as to the appropriate role of controls in that effort.

Agreement on these points is important and a source of encouragement. I do not, however, delude myself into thinking that the area of agreement on these points, important as they are individually, is enough to ensure the overall consistency, balance, and coherence of which I spoke. In particular, we have much ground to cover to make these principles operational, in the sense of specific and defined rules of behavior acceptable to all.

As one illustration, in concept we all want a better process of balance of payments adjustment. But in practice, that dull and abstract phrase "balance of payments adjustment" translates into difficult economic judgments and sensitive political issues for any government. Who is to decide what action will be taken, when, and by which country? In practice, we need to find workable answers to those questions, and answers satisfactory to the trading community as a whole, as well as to individual nations. We must, for instance, settle the appropriate scope for national discretion, the role of the International Monetary Fund, and the extent to which objective indicators can be usefully employed. In all these areas, a full consensus has not yet been reached.

The target we set last September was to reach agreement on the broad outline of reform by next September's IMF meeting in Nairobi. Our objective, between now and September, remains to identify as broad an area of agreement as feasible, so that work can proceed on the operational rules to implement those principles. As this implies, Nairobi will not end the work of reform; under the most favorable of assumptions, there will be much more to be done, by way of forging the operational rules and preparing necessary legislative action.

For this reason, it is of particular importance that we have a workable interim system while we proceed with reform. In the past 2 years the monetary system has been subjected to sharp upheaval and unprecedented changes—two major currency realignments, including substantial devaluations of the dollar, and more recently decisions by a number of the major industrial nations to allow their currencies jointly or individually to float.

The general arrangements under which a number of these currencies are floating were worked out at a joint meeting of the Group of Ten and the European Community last March 16. The participating governments made clear that while they assumed no general obligation to intervene in exchange markets to maintain specified margins, official intervention in foreign exchange markets could be useful at appropriate times to facilitate the maintenance of orderly market conditions. That understanding and undertaking guides and motivates our approach toward intervention. To assure our continuing capacity to carry out such operations, reciprocal credit facilities have been enlarged.

Since March there have been sizable movements in some market exchange rates, particularly between the dollar and some European currencies. I believe, and many others believe, that the appreciation of certain currencies vis-a-vis the dollar has moved farther than warranted or needed to restore long-term international payments equilibrium, including specifically equilibrium in our own balance of payments.

In appraising the recent movements in exchange rates, I would note that the sharp moves have been confined almost entirely to the European countries participating in a joint float—the so-called "snake." Indeed, the dollar has remained rather steady for months against the currencies of countries accounting for some three-quarters of our trade. This includes our major trading partners outside Europe—Japan, Canada, and most of the developing countries—as well as some important European countries, for example, the United Kingdom and Italy.

In appraising this recent experience, I would draw several conclusions of relevance to longer term reform:

First, in a situation marked by large payments disequilibria built up over a long period of time, with accompanying uncertainties and speculative tendencies, attempts to maintain fixed currency relationships led to repeated strains and crises. These strains were aggravated by the fact that the disequilibria strongly affected the main currency of the system—the dollar. In a situation of this sort, in contrast to the available alternatives, the floating of currencies has provided a broadly acceptable modus operandi during the period before equilibrium can be restored, and the present evidence suggests flows of trade and long-term investment have not been seriously affected.

Second, I believe this experience underlines the importance, in terms of achieving more stable currency relationships, of establishing equilibrium in the payments of the United States. No international monetary reform can substitute for that requirement. We can, as part of the reform process, reduce the degree to which the system has been dependent on the dollar, but we cannot escape the facts that the United States will remain the largest economic unit, and that the health of our currency is important to other countries as well as to ourselves.

Third, the interim arrangements now in place are not a substitute for long-term reform. They do not provide the framework of agreed and reasonably clear rules needed to meet the longer term requirements of the system. That is the task of reform.

Fourth, as implied by my earlier remarks, the difficulties we have encountered demonstrate the dangers of allowing payments imbalances to build up over an extended period. Although the February devaluation was almost universally regarded as adequate, the inevitable lag in its effects and the resultant period of uncertainty until those effects can show through fully, have contributed to the market disturbances which followed. This underscores the need for effective incentives for countries—for the United States as well as others—to adjust promptly to emerging disequilibria. This, again, is the task of reform.

Fifth, the instability of the private market for gold, with sharp gyrations in its price, has demonstrated again the unsuitability of that metal as the central reserve asset of a new system.

Finally, while a number of countries have increased the use of controls on short-term capital in an attempt to deal with the massive flows of mobile funds which can occur in today's world, the limitations on the effectiveness of such controls have been demonstrated once again. Such controls do not appear to be an adequate response to the problem of speculation and imbalance.

I noted earlier that the Ministers will be meeting in Washington at the end of this month. This meeting is designed to encourage a full and frank exchange of substantive views on the issues developed by their Deputies. You should not anticipate immediate resolution of the issues on the table, for the meeting is not intended to force agreement where basic issues are unresolved and differences in approach and analysis remain evident. In other words, it is a working, preparatory meeting, rather than a meeting for reaching final conclusions or for laboring over a vague communique.

We do believe it can be an important meeting, in the sense that responsible political officials need an opportunity to explore the principal problems and possibilities fully and informally together, testing their thinking, one against another, before sound conclusions are possible. We also anticipate that the Ministers, on the basis of their discussion, will want to set out a work program for Nairobi and beyond.

In this manner, I believe the process of developing the needed consensus on monetary reform is proceeding. I particularly welcome this opportunity to explore the issues with you today, for no one could be more conscious than I that our efforts must rest on a broad base of legislative and public support.

Exhibit 49.—Press release, August 22, 1973, announcing formation of Advisory Committee on Monetary Reform

Secretary of the Treasury George P. Shultz today announced formation of an "Advisory Committee on Reform of the International Monetary System."

In forming the Committee, Secretary Shultz noted that "as the reform discussions reach their definitive stage, I think it particularly appropriate and important that the government officials concerned keep in close touch with experienced and expert members of the private financial and business community to help assure that reform is realistic, practical, and effective. I look forward to the advisory committee playing an important role in this effort."

The 14-member group will hold its first meeting in Washington, August 29.

Henry H. Fowler, former Secretary of the Treasury and now a partner of Goldman Sachs and Co., will serve as chairman of the group. Two other former Secretaries of the Treasury also will serve on the Committee—Douglas Dillon of New York and John B. Connally of Houston, Tex. Other members are: William Blackie, director and former chairman of the Caterpillar Tractor Co., Peoria, Ill.; A. W. Clausen, president of the Bank of America, San Francisco; Gaylord Freeman, chairman of the board of the First National Bank of Chicago; Gabriel C. Hauge, chairman of the board of Manufacturers Hanover Trust Co., New York; Howard C. Petersen, chairman of the board of Fidelity Bank, Philadelphia; David Rockefeller, chairman of the board of Chase Manhattan Bank, New York; Robert V. Roosa, partner, Brown Bros. Harriman and Co., New York; Reginald H. Jones, chairman and chief executive officer, General Electric Co., New York; Ellmore C. Patterson, chairman of the board, Morgan Guaranty Trust Co., New York; Walter B. Wriston, chairman of the board, First National City Bank, New York; and Henry C. Wallich, senior consultant to Secretary Shultz and a Yale University economics professor.

Professor Wallich besides serving on the Committee will continue to maintain liaison with members of the academic community who have been consulting with the Treasury on monetary reform issues.

[On October 12, 1973, Secretary Shultz announced the additional appointments of former Treasury Secretary David M. Kennedy and former Federal Reserve Board Chairman William McChesney Martin. The Committee's second meeting was scheduled for October 18.]

Exhibit 50.—Statement by Secretary Shultz as Governor for the United States, September 25, 1973, 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, Nairobi, Kenya

Nairobi has been a happy choice for this annual meeting. For many of us, the prospect of visiting Kenya and seeing some of its natural splendor provided a special sense of anticipation. Upon arrival, we found these striking and efficient facilities in the setting of a city that epitomizes the rapid progress that independent, self-reliant, and energetic people can make when they have the tools with which to work. I particularly appreciate President Kenyatta's warm words of welcome and his challenge to us all.

Less than 2 weeks ago in Tokyo, most of the nations here represented pledged themselves to a thorough review of our trading practices and rules. This week, we can provide the necessary impetus to complete our work in reshaping our international monetary arrangements. Here in Nairobi—on a continent where vast potential often contrasts starkly with human poverty—we also come face to face with the challenge of economic development.

Trade, money, development—each of these is a large task. Any one of them, it might be said, would be enough for us to deal with alone. Yet, in a larger sense, we are fortunate that the pressure of events forces us to deal with them together. They are related, not by any artificial or self-imposed negotiating calendar, but by reality. It is right to keep in mind that delay in one area could undermine progress in another. It is equally right—and a better omen—that success in one area will support and encourage good results in the others.

These fundamental interrelationships were plainly recognized in the mandate given the Committee of Twenty on monetary reform a year ago. They were recognized in the Tokyo Declaration of Trade adopted by GATT earlier this month. Let us keep them in mind in all our work in Nairobi and beyond, and emphasize the mutually reinforcing benefits of success in each field.

Monetary reform

Our monetary discussions are now well advanced, owing in no small part to the patient and effective efforts of Mr. Wardhana and Mr. Morse. We take satisfaction in the extent to which a basic convergence of views on the broad framework of a new system has emerged.

We all seek a substantial strengthening of the processes of international adjustment through a blending of objective criteria and international judgment, with the recognition of the need for symmetrical and evenhanded pressures on both surplus and deficit countries.

There is full acceptance of the idea that the center of gravity of the exchange rate system will be a regime of "stable but adjustable par values," with adequately wide margins and with floating "in particular situations."

We anticipate a general system of convertibility to support the regime of par values, with a modified SDR as the central reserve asset, and de-emphasis of the roles of gold and reserve currencies.

There is a common will to explore the complex technical requirements for multi-currency intervention and to find mutually satisfactory terms for consolidating or funding outstanding balances of reserve currencies.

At the same time, my sense of satisfaction is tempered. Issues of critical importance, carefully outlined in the report submitted to us by Mr. Wardhana, remain unresolved. No doubt we could each expound at length views on particular aspects of these issues. However, I believe those issues will be resolved as national governments are able to appraise more thoroughly the operational aspects of different approaches toward adjustment pressures, toward convertibility, and toward the definition and valuation of reserve assets. Moreover, we need to consider answers to each of those questions in the full context of answers to the others.

In constructing a world monetary system, we cannot act, as I see it, like merchants in a bazaar bargaining for selfish advantage. Nor should we be concerned out of pride or politics with patching together and compromising components from every national position. All our success depends upon achieving a coherent, workable whole that fairly serves the common interests.

With good will and intensive technical work, the ground can be fully prepared for a comprehensive agreement as soon as next spring. That agreement will then need to be translated into an extensive and detailed rewriting of the IMF Articles of Agreement. Is it wrong to aim to approve those new Articles, for submissions to our legislatures, at our next annual meeting?

The transitional period

We are all conscious of the stresses in exchange markets arising from time to time during this transitional period. Yet, in broad terms, the substantial exchange rate changes of the past 2 years—although in some instances clearly exaggerated by speculation and uncertainty—have provided powerful and needed impetus toward correcting persistent structural imbalances.

In the case of the United States, the alarming erosion in our trade position has by now been decisively reversed. In contrast to a deficit of more than \$6½ billion in 1972, we should be close to balance in 1973. While an extraordinary surge in agricultural exports has greatly speeded the turnaround, our trade position in manufactured goods has also been improving, even in the face of high domestic demand.

We are also beginning to see welcome evidence that both American and foreign firms are reappraising their investment programs, with more emphasis on U.S. production. Thus, shifts in capital flows should reinforce the favorable effects on our payments of the swing in our trade position. In these circumstances, surpluses in both our trade and basic payments position now appear in sight for next year. Such surpluses for a period seem to me indispensable for full restoration of confidence, for encouraging a reflow of dollars to the United States, and for implementing any lasting monetary reform.

Our contacts with traders, investors, and businessmen suggest they have acclimated themselves reasonably well to the present monetary environment, despite more instability in exchange markets from day to day than they or we like to see. Propelled by boom conditions, world trade is, if anything, expanding even faster than in most earlier years.

It would be a fundamental error, however, to mistake present arrangements for monetary reform. Habits of cooperation and the exercise of good sense have carried us over the rough spots. But what is lacking—and what I believe to be the essence of any lasting monetary system—is a deep sense of commitment on an agreed code of international conduct to help guide us when the actions of one nation impinge on those of another.

Issues left open

In one way or another, most of the issues left open in Chairman Wardhana's report deal with delicate and sensitive questions arising out of the inherent tensions between the responsibilities of national governments to meet their domestic priorities and our common commitment to a mutually beneficial international order. We firmly believe these tensions can be constructively resolved, for in the end a well-functioning international system should contribute to the growth and stability of the individual countries operating within that system.

The challenge is to translate that concept into operating reality. To do so will require a commitment to some basic rules established in advance and seen as equitable to all. We must provide for necessary international review and surveillance. Not least, we must permit necessary scope for national decisionmaking.

In seeking an appropriate balance among these components of a new system, we have emphasized the role that quantitative indicators—and in particular reserve indicators—could play in helping discipline the adjustment process in an evenhanded, effective, and politically acceptable manner. I therefore welcome the prospect that in the months immediately ahead, a common effort will be made to appraise and test the operational feasibility of that approach, alongside related questions of the operation of the convertibility provisions in the new system.

At the same time, I believe it is common ground among us that effective processes of international consultation and decisionmaking are critical to the operation of the new system. I have been encouraged by the widespread recognition of the need to equip the IMF to play its full role at the center of the system. The logic is strong that, for the Fund to act effectively, member governments should have available a forum of workable size within the organization at which responsible national officials can speak and negotiate with both flexibility and authority. Conversely, we should be sure that the deliberations and concerns of the international community are fully and directly reflected in the internal councils of member governments.

These objectives could be fostered by keeping in being a streamlined Committee of Twenty, able to review periodically or in emergencies larger issues with a significant impact on the monetary situation as a whole. Plainly, there will also be a need to retain a body along the lines of the present and highly competent Executive Board, with resident members and the knowledge and insight that comes only with intimate day-to-day contact with operations and emerging problems.

In the effort to resolve finally these difficult substantive and organizational questions, I particularly look forward to the participation and fresh insights of our new Managing Director, Mr. Witteveen. He brings to us rich and varied experience as a professional economist and a practicing politician—precisely the disciplines that must be blended in all our work.

Development

The day has long passed—and rightly so—when discussions of trade and monetary issues could take place primarily in a relatively closed circle of industrialized countries. We must consider with great care what special arrangements within the trading and monetary systems may be appropriate to help meet development needs more effectively.

In presenting broad trade legislation to our Congress, we incorporated the concept of assisting development by means of generalized preferences, to be granted on a nonreciprocal basis. This approach, undertaken in concert with comparable efforts by other industrialized countries, is consistent with the broad thrust of our mutual effort to reduce barriers to trade and to encourage economic development. We look forward to early passage of this legislation.

We support the idea of freeing flows of capital to developing countries and exempting where possible those countries from controls imposed for balance of payments purposes.

Closer examination should be given to methods of providing credit through our international institutions better tailored to the needs of developing countries experiencing extended periods of difficulty.

Our judgment concerning the value of another proposal has, as is well known, been different. We feel the so-called SDR-aid link would in practice serve well neither monetary stability nor economic development. Experience strongly demonstrates the wisdom of keeping separate the function of money creation—which is what the SDR is all about—and the essentially political decision of resource transfer and redistribution.

Larger stakes

As we deal with these specific issues, let us never lose sight of the much larger stake that developing countries—as all of us—have in a well-functioning, stable monetary system and an open trading order. Mr. McNamara has already pointed to the cost to poorer countries of burdens on their exports in the markets of industrialized nations. Long delays and sharp exchange rate adjustments among their more affluent trading partners, responding to imbalances that were permitted to build up over a period of years, have complicated the financial management of developing countries.

At the same time, a number of countries still classified as developing are reaching a stage of industrialization where they can, in the mutual interest, accept their fair share of the responsibilities for a world order. Controls, subsidies, and other impediments to open trade that might have been justified in an earlier stage of development need to be reviewed and eliminated. The disciplines of balance of payments adjustment—whether to correct deficits or surpluses—need to be observed and this can be done without sacrificing developmental objectives. Indeed, I believe there are longer term dangers to the kind of open, one-world economy we would like to see in casually proliferating arrangements that would divide the world sharply into distinct groupings of "have" and "have-not" nations.

In the short run, the prosperity of developing countries is tied to the prosperity of the industrialized world. In the past 2 years, relatively high prices for agricultural products and raw materials have directly benefited many. When the labor forces of industrialized economies are fully employed, resistance to imports of labor intensive products declines, to the benefit of producer and consumer alike.

While uneven country-by-country, the overall results are apparent in the recent growth of production and monetary reserves of the developing world. Excluding the main oil producers, developing countries had a surplus of over $4½ billion in 1972, and their surpluses appear to have been well maintained this year.

Long-term development and official assistance

A cyclical surge is, of course, no substitute for sustained development over a long period of years. In the end, development will succeed or fail as the result of the efforts of the millions of people in the developing countries themselves—working under the direction and leadership of their own governments. Compared to the human and material resources of even the poorest country, the effects of external assistance are bound to be modest. Indeed, all the official assistance of all the donor countries of the Western World amounts to less than 2 percent of the GNP of developing countries.

Effectively used, however, the margin of resources from abroad can be a catalyst—in some instances an essential catalyst—to the development process. I speak of this potential as seen from the particular vantage point of a country whose people and Government have had experience in the provision of assistance in amounts, and over a period of time, without parallel in history. Even today, when others have moved to help pick up the burden, the United States provides almost 40 percent of official development assistance from the OECD countries, and it is by far the largest source of private capital as well.

This commitment has been a natural one, for we are a large and relatively rich country, unusually blessed with resources, political stability, and a productive population. We accept today, as we have in the past, the simple premise that no nation—whether the motives are properly considered those of common humanity or enlightened self-interest—can be oblivious to the conditions in which other men and women are living.

Out of this long experience, we have reached certain conclusions and raised certain questions that I want to convey to you today. The questions are no doubt sharpened by the searching look at priorities evoked by long years of an agonizing war and by the evident strains on our external position. Like every other country represented in this room, we face hard decisions about economic and social priorities in many areas.

The strongest of our convictions is that aid stimulates development only where there exists the will and competence to utilize it effectively. This implies a responsibility upon the donor as well as the recipient to identify, develop, and carry through projects of strategic developmental importance. The World Bank group and its sister regional financing institutions rightly pride themselves as leaders in efficient project planning and execution, and in assessment of those projects as part of a larger development effort. This is not a matter of dramatic, new initiatives, but hard, persistent effort. We are particularly gratified that the World Bank group is moving to reinforce its effectiveness by further strengthening postaudit performance evaluation, independent of those responsible for project execution.

Second, there is a growing need to place more emphasis on what might be called "people-oriented" projects rather than large-scale civil engineering. We have redirected the emphasis in our own bilateral assistance in support of imaginative, new programs in education, agriculture, and population planning. We warmly support the initiatives the World Bank has taken in these same areas. The fresh emphasis that Mr. McNamara placed on rural development, in his remarks to us yesterday, seems to us entirely appropriate.

Third, and most broadly, a genuine commitment on the part of recipient countries to the idea of development in their own policies is a key ingredient. Experience shows, time and again, that "growth-oriented" countries rapidly become less dependent on official assistance once internal conditions are right.

There is one aspect of "growth-orientation"—the part played by private investment—that I wish to emphasize, sensitive though it may be. In sheer quantitative terms, the potential is clear enough—net flows of medium and long-term private capital to developing countries are now as large as official assistance. Moreover, the private investor can bring benefits in skills and experience that simply have no counterpart in governmental aid.

Every sovereign nation has, of course, the right to regulate terms and conditions under which private investment is admitted, or to reject it entirely. However, when such capital is rejected, we find it difficult to understand that official donors should be asked to fill the gap. Moreover, we do not find it reasonable that a nation taking confiscatory steps toward investment that it has already accepted from abroad should anticipate official assistance, bilateral or multilateral.

IDA replenishment

Mr. McNamara has outlined an ambitious program for the next 5 years. We are in a large measure of agreement with the objectives of that program and we give them our support. We also appreciate that a consensus has been reached that the traditional share of the United States in IDA financing should be dropped from 40 percent to one-third, and the shares of Japan, Germany, and others increased, to more accurately reflect the present distribution of economic strength.

On this basis, the U.S. administration will consult with, and strongly recommend to the Congress our participation in a total fourth replenishment for IDA of $4.5 billion. In doing so, I must emphasize that many questions about this program, including those I have discussed with you, are on the minds of the Members of Congress. The large and distinguished delegation from the Congress that has accompanied me to Nairobi and visited a variety of World Bank projects in Africa is evidence that they are interested in finding constructive answers to these questions.

I cannot say with any certainty how long our consultative and legislative process will take or certify its outcome. We do fully recognize that necessary legislative procedures differ among countries, and that timetables are pressing. We will, therefore, remain in close touch with the management and the Executive Board of the Bank during this process.

Inflation

Before concluding, I must underscore the threat to all our constructive labor from the storm of worldwide inflation.

Unfortunately, inflation is no new phenomenon. What is new is that it is now infecting more countries, in a greater degree, than at any time in memory. Speculation in commodities is fed by fear about currencies. Inflation is becoming imbedded in the expectations of too many people. Long maintained, this will break down the processes of orderly development. It is simply incompatible with the stability of any international monetary and trading system.

I am familiar with analyses that trace world inflation to defects in the international monetary system. The Bretton Woods system has, itself, been criticized as an engine of inflation, and floating rates praised as permitting the restoration of internal monetary discipline. Equally forcibly, we are urged—especially by those who have seen their own exchange rates depreciate and their import bill rise—that floating rates are themselves an inflationary force.

Whatever the technical merits of these analyses in particular circumstances, I submit they place the responsibility for inflation and its correction in the wrong place. Let us not neglect the causes and cures that lie closer to our national actions and powers.

Two factors, mainly unforeseen a year ago, have been at work in the recent surge of inflation. The first is that strong expansionary forces have coincided among virtually all industrialized and developing countries. As a result, increases in cyclical demand have put pressures on supply, exposed unforeseen shortages of capacity, and driven up prices of raw materials. Second, the pressures on prices in two key areas—agriculture and energy—have been greatly aggravated by crop failures in weather, and by shifts in production patterns and marketing policies.

In the United States, we have long been accustomed to relatively low prices of basic agricultural commodities. For many years, without adequate markets abroad, we kept a sizable margin of farm resources idle. But, in the past crop year the volume of our wheat exports nearly doubled, feed grain exports rose by two-thirds, and soybeans by one-sixth. And now, with our markets fully open to the surge in world demand, looked to as a residual supplier when other countries are short, and without the price protection afforded those whose exchange rates have appreciated, we have felt the full brunt of the rise in world agricultural prices.

At the same time, our needs for energy imports are rising rapidly. Obviously, these commodity flows in both directions have responded to pressing needs. But the price impact is measured by the fact that, taken together, prices of food and energy account for 82 percent of the rise in our Wholesale Price Index and 66 percent of the rise in our Consumer Price Index in the past year.

We believe a market-oriented system will respond flexibly and effectively to changing needs. We are making great efforts to deal with the high price of food by bringing idle acreage back into production. Normal market processes are at work. The prices of soybeans are 50 percent below their speculative peak, feed grains have fallen back by a quarter, and wheat prices—where the worldwide supply situation is most tenuous—have at least stopped rising.

We cannot speed the natural cycle of planting and harvesting, and of animal growth. We face for a considerable period ahead a tight situation in agricultural markets. But we have every intention of keeping our markets open, for we are and intend to be a dependable supplier.

Meanwhile, this experience will ultimately redound to our common advantage if we attack with fresh urgency the problem of finding more effective patterns of production and trade to serve our mutual interest in more food at cheaper prices.

Let us work in similar spirit to deal with the problem of developing and distributing energy resources.

We for our side have now embarked upon a massive effort to develop the bountiful energy sources within our own country now made economic by higher prices. We look to others to help maintain the flow of energy, so long as their own legitimate needs and aspirations are fairly recognized.

A vigorous attack on the special problems of food and energy are not a cure-all for inflation. A number of countries, as ourselves, have resorted to, and even intensified, direct price and wage controls. But we remain convinced that our success will hinge mainly on the firm and persistent application of the traditional tools of fiscal-monetary restraint. I need not belabor, to an audience of finance ministers and central bankers, that expenditure and monetary restraint are never popular. Nevertheless, I believe, in the face of the evident need, these policies are broadly accepted by the American people. We mean to see it through. We hope and expect our efforts will be mutually reinforcing with those of others.

Exhibit 51.—Letter from Acting Secretary Simon to the Chairman of the House Ways and Means Committee, Wilbur D. Mills, September 28, 1973, concerning the exclusion from the IET for original or new Canadian issues of stocks or debt obligations (A similar letter was transmitted to the Chairman of the Senate Finance Committee, Russell B. Long.)

DEAR MR. CHAIRMAN: Pursuant to Section 4 of Public Law 93–17, approved April 10, 1973, the Treasury Department has conducted a study concerning the Canadian exemption from the Interest Equalization Tax. Executive Order 11175 of September 2, 1964, as amended by Executive Order 11314 of September 12, 1966, provides for an exclusion from the IET for original or new Canadian issues of stock or debt obligations. This exclusion is based upon a determination, under Section 2 of the Interest Equalization Tax Act approved September 2, 1964, (Public Law 88–563) that the application of the tax would have "such consequences for Canada as to imperil or threaten to imperil the stability of the international monetary system."

Since 1964, Canada has moved from a fixed exchange rate system to a floating system and there have been many other significant developments affecting the international monetary environment. The case for the Canadian exemption in these changed circumstances is not as compelling as it was at the time it was first established. Nevertheless, I have concluded that sufficient justification continues to exist, within the requirements of the Interest Equalization Tax Act, as amended, for continuing the exclusion for Canada. The principal reasons include the following:

1) The United States and Canadian economies and financial systems continue to be closely interrelated. A major action, such as elimination of the IET exemption, would create substantial disturbances to the present structure of the financial links between our two countries.

2) To the extent that imposition of the IET restraint on capital flows from the United States to Canada would reduce the supply of U.S. dollars for conversion into Canadian currency, the Canadian dollar's quotation in terms of the U.S. dollar would tend to depreciate under Canada's floating exchange rate regime. Such a development would be conducive to a further increase in the already large bilateral trade deficit that the United States has with Canada.

3) The elimination of the Canadian exemption would be likely to generate important shifts in the direction of international capital movements as Canadian borrowers would seek to find substitute sources of funds in international markets. In the present transitional phase between an old and a new international monetary system we have seen that developments inducing significant changes in the pattern of capital flows can easily generate uncertainties and unsettling pressures on the exchange markets. I believe it would not be prudent to add to such risks.

In addition to these considerations, I am mindful of our commitment to phase out the IET and the other restraints on United States capital outflows no later than the end of 1974. Placing an IET barrier between the U.S. and Canada for such a relatively short period would create unwarranted interference with the relationships that have been built up over the years between Canadian borrowers and U.S. lenders. Canadian provinces and other traditional users of U.S. funds would be forced to reassess their plans and procedures and U.S. lenders and financial intermediaries would lose opportunities that might be difficult to recapture in the future. Finally, in the light of the policy decision to terminate the IET, it would be incongruous to act at this late date in a contradictory direction by removing an exemption from a tax that we are determined to eliminate.

I am sending a similar letter to Senator Russell B. Long, Chairman of the Senate Finance Committee.

Sincerely yours,

(Signed) WILLIAM E. SIMON,
Acting Secretary.

THE HONORABLE
WILBUR D. MILLS, *Chairman*
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Exhibit 52.—Highlights of an address by Secretary Shultz, October 5, 1973, before Die Deutsche Gesellschaft fuer Auswaertige Politik, Bonn, Germany, on "The Political Implications of International Monetary Reform"

The technical aspects of monetary reform are vital and have received much public discussion. But they will not be the primary concern of Finance Ministers and their superiors.

To insure that any monetary agreement is politically acceptable, so that it will be ratified, and politically workable, so that it will endure, is the unavoidable responsibility of Finance Ministers and of Chancellors and Presidents.

In Nairobi we were able to publish a record of considerable progress; we agreed on a reasonable deadline, July 31, 1974, for agreement in principle on all major issues; we instructed our Deputies to set up a number of working groups to appraise the operational aspects of various specific proposals.

We had been able to build on consensus on certain basic points:

That an individual nation needs substantial flexibility in choosing among alternative policies for achieving its basic goals;

That the international community should have the capacity to insist upon respect for the requirements of an international order; and

That there must be agreement on some basic guidelines to be employed in international review of national policies.

If in the future we are to avoid jolting monetary changes and limitations on international trade and investment, the guidelines will have to meet a number of political requirements:

The monetary guidelines will have to be set in a framework of international rules that are seen to be fair to all;

They must be sufficiently precise that international decision will not be too long delayed;

If there is to be wide acceptance of decisions to override or not to override the guidelines in specific instances, the decisions will have to be made by officials clearly acting with the authority of their governments;

The guidelines must not interfere unnecessarily in national decisionmaking; and

The guidelines should not be made very detailed just for theoretical perfection where such detail is not essential.

Obviously, there are also basic economic prerequisites for the success of any new international monetary agreement:

Governments must explain their policies and forecasts, so that wide differences do not develop between the exchange market predications of governments and the predications implied by the actions of the market participants, and

Governments must demonstrate far more effectiveness in fighting inflation in the coming years than they have shown in recent years.

Fortunately, governments are displaying a new determination to master inflation, but the world has not yet been made safe for a rational international monetary system.

There are hopeful signs:

In recent weeks there have been striking reductions in the prices of major agricultural products.

The United States has been able to terminate its agricultural export controls.

Budgetary restraint is the order of the day in a number of countries, including the United States.

In the United States monetary growth has been sharply curtailed.

The U.S. payments position is strongly improving, not only because of the marked strengthening of the trade balance, but also because of a resumption of the flow of private investment to the United States. We welcome this flow whether it be in portfolio form or in direct investment in U.S. operations.

We are moving toward circumstances which will permit implementation of new international monetary arrangements. When that time comes we must present the world an agreement that is economically workable and politically acceptable.

Exhibit 53.—Remarks by Deputy Under Secretary Bennett, October 11, 1973, before the Conference on the Business Outlook in Canada—1974 of the Conference Board in Canada, Toronto, Canada, on "Towards International Monetary Reform"

After listening to three persuasive descriptions of the future this morning I feel I must enter into the spirit of the occasion by venturing at least some forecasts of my own. I'll put forward two: Firstly, that business in Canada in 1974 will not be significantly influenced by large changes in basic international monetary conditions during the year, and secondly, that my assigned subject this morning, the international monetary system, won't even be on the agenda of your similar conference 2 years from now. The subject will by then have been relegated to that category which embraces systems, such as the municipal water works, whose working is important but which don't need to be talked about.

I'll admit that I have been tempted to omit even these two limited forecasts as I have reflected today on when it was that I last saw your president, Arthur Smith. At that time, when we were teaching assistants in the same money and banking course back in 1950, everyone was talking about a worldwide shortage of U.S. dollars and the yield on U.S. Treasury securities was a little over 2 percent.

Despite that personal reminder of the magnitude of financial change, I'll stick to my forecasts so long as I can make clear that in predicting no vast economic effects on Canada next year emanating from international monetary developments. I am referring to basic conditions in the international monetary system, not to Canada's specific international financial relations. There are many others here, including in particular your next speaker, Governor Bouey, who are far better qualified than I on that subject.

My forecasts, that Canadian businessmen will not be faced with the necessity of operating in the midst of monetary turmoil and that international monetary experts will go out of style on conference platforms, are based on a number of considerations:

First, the accumulated backlog of needed change in exchange rates built up over the years prior to mid-'71 has now been worked off.

Secondly, the payments position of the country whose currency is still most widely used for international trade and investment transactions is clearly strengthening. This improvement results in good part from the shift in the U.S. trade balance, but the improvement has also resulted, in part, from a strong resumption in the flow of private investment funds to the United States. We expect this investment flow to continue to grow, and the U.S. Government welcomes it, whether it be in portfolio form or in direct investment in U.S. operations. The improvement in the U.S. payments position will probably lead to some gradual appreciation of the exchange value of the dollar over the coming year, but this movement will likely be moderated as some foreign governments act to limit the corresponding depreciation of their currencies by gradually selling off a portion of their plentiful holdings of U.S. Treasury obligations.

A third reason for the forecasts is that there is now a clear consensus among major governments that they can usefully employ their large resources to intervene in foreign exchange markets, when necessary, to avoid disorderly conditions so long as they are careful to introduce unsustainable rigidity. The famous formula of last March's communique on the objective of stable but adjustable rates was neither, at one extreme, a detailed agreement, nor, at the other extreme, just a formula to mask disagreement. In my view it was a recognition that too great a rigidity was attempted in the past, with the result that the actual process of change was unnecessarily disruptive when it came. At the same time the formula was a recognition of the useful role governments can play if they don't overplay their hands.

In the development of this consensus I suspect nothing was as persuasive as the example of Canada's success in maintaining orderly markets while displaying quiet persistence in avoiding premature rigidity. There have been times when Canada and the United States were in a rather lonely position in insisting that a country engaged in orderly floating should not be regarded as a social pariah. Yet I suspect the durability of the ultimate agreement on international monetary reform will owe much to the Canadian example even though it is agreed that par values will provide the center of gravity of the reformed system.

Another reason for my forecasts is that I believe that Finance Ministers will meet the deadline they have set themselves for agreement by July 31 next year on all the basic elements of reform. Day before yesterday I returned from several weeks of foreign traveling with Secretary Shultz, who has spent well over half his time recently on his international responsibilities. It is my clear impression that he and his counterparts in other countries believe that pursuit of a new international monetary agreement is a worthwhile effort, worth all the traveling, the consultation, and the negotiation being devoted to it. As I have listened to these Ministers talk to each other, I have noticed their determination to prove by next July that they can accomplish what their Deputies haven't been able to arrange. In his speech at Nairobi, Minister Turner expressed a general feeling when he spoke of "cautious optimism tinged with impatience."

A final reason for my forecasts is that I'm sure the Ministers have no intention of implementing their agreement in a way which would cause drastic sudden changes in market conditions. After the agreement on the elements of reform next year, agreement will still need to be worked out on a new legal text, and then, thereafter, many months will probably be needed to complete ratification around the world. Meanwhile, however, I would expect nations to begin gradual introduction of aspects of the reform on an ad hoc basis. In this connection, it was widely noted at Nairobi that Minister Turner in his speech had already begun to turn his attention to the ways of gradual practical introduction of various aspects of reform.

From these remarks of mine you can gather that I feel there has been noteworthy progress toward reform since August of '71. Contrary to some "gloom and doom" press reports from Nairobi, I believe that official positions of various governments have been gradually converging over the past 2 years. But before we heap excessive praise on ourselves, I think it would be fair to recognize that even at the beginning of this period of concentration on international monetary affairs there were already many important areas of consensus. There was probably agreement from the start that the basic purposes of the whole exercise are avoidance of large and persistent imbalances which lead to unnecessarily large and jolting monetary changes which disrupt beneficial international trade and investment transactions, and avoidance of governmental controls and impositions which also choke off such beneficial transactions.

There was probably general agreement, too, on some procedural features:

That it is appropriate for the international community to take note of the fact that the choice which an individual nation makes among alternative policies for achieving its economic goals can have significant effects also on other nations—even when such policies are described by their promoters as purely social or regional in intent;

That the international community should have the services of an independent and high-quality staff to provide analyses of the effects of national actions having important international monetary consequences;

That there should be an established forum where national representatives can meet, when necessary, to formulate recommendations for, and in extreme cases to bring collective economic pressures on, individual nations; and

That there must be advance agreement on a set of guidelines indicating on a prima facie—but, to use another Turner word—rebuttable basis what types of national action are internationally unacceptable unless justified by special circumstances.

Starting from these general points of agreement on objectives and procedures, I have observed the various official positions converging on what conditions must be met if a new agreement and its guidelines are to prove politically acceptable, so that they will be ratified, and politically workable, so that they will endure:

The new monetary guidelines must be set in a broader framework of economic rules which are seen to be fair to all nations;

If there is to be widespread acceptance of the guidelines, and widespread acceptance of decisions to override or not to override them in specific instances, then those decisions will have to be made by a body of high-level representatives clearly acting with the full knowledge and authority of their respective governments;

The guidelines must be sufficiently precise that when they are to be applied to a specific case it will not be necessary to develop the whole rationale from the ground up. Otherwise the people of the country concerned may feel that they are being "picked on" rather than being asked to live up to an agreed international standard of behavior;

Yet the guidelines must not be more detailed than necessary and must not interfere unnecessarily in national decisionmaking; in other words, the guidelines must leave to national authorities the maximum of discretion in choosing the method of avoiding internationally damaging results so long as that objective is achieved; and

Lastly, the guidelines must provide evenhanded treatment of deficit and surplus countries in recognition that as much damage can be done by a country which holds the value of its currency too high through excessive borrowing and through controls on commodity imports and capital outflow as can be done by a country which holds the value of its currency too low through excessive reserve accumulation and through controls on commodity exports and capital inflow.

How to achieve these conditions is not agreed, but it is widely agreed that they must be achieved if any new agreement is not to run the risk of collapsing after a short life and severely setting back the prospects for continuing international economic cooperation. In particular it is not agreed how to achieve the necessary balance between presumption and discretion in application of the guidelines, but in the Treasury we have been pleased to see the increasing recognition of the relevance of disproportionate movements in nations' exchange reserves as a guide for maintaining international balance. We expect further convergence in thinking will result from the labors of four new working groups which were formed at Nairobi and instructed to report back before the next Ministers meeting in January.

There is no illusion, however, that agreement on guidelines, when it is reached, will insure stable international monetary arrangements unless governments begin to demonstrate more effectiveness in combating inflation in the coming years than they have over the last few years. The problem is not just that with such high rates of inflation there are likely to be significant disproportions between the rates of price increase in different countries and consequent strains on the monetary system. In addition, the inequities and frustrations caused by inflation are likely in any country to undermine devotion to the orderly processes of international economic cooperation.

Fortunately, many governments around the world today seem to be displaying a new determination to master the basic sources of inflation. Budgetary restraint is now the order of the day in many countries including, as Al [Albert Somners] pointed out, the United States. Nonetheless, we have a long fight ahead of us, and the world has not yet been made safe for a new international monetary system. But we are moving in the right direction, and international monetary officials around the world seem determined that they will be ready with an agreement by the time economic and political conditions are ripe for it. Those new working groups start work next week. In fact they are scheduled to meet on each of the 3 days of the rare 3-day weekend which was supposed to come at the end of next week in the United States. The monetary officials are making progress but they have obviously failed miserably so far in achieving the important objective of "fixed," "free" weekends with "wider margins."

Exhibit 54.—Press release, October 17, 1973, announcing that United States formalizes new par value for dollar

The United States announced today the completion of the technical requirements for establishing a new par value for the dollar in the International Monetary Fund. This action formally implements the 10-percent devaluation proposed on February 12, 1973, but has no significance for the rate at which the dollar trades in foreign exchange markets since the proposed devaluation was immediately reflected in exchange rates upon the February announcement.

The dollar's new par value is equal to 0.828948 special drawing right and will become effective at 12:01 a.m., October 18, 1973. The par value of the dollar in terms of gold will change from $38 to $42.22 per fine troy ounce (0.0236842 of a fine troy ounce).

Secretary of the Treasury George P. Shultz proposed the change in a letter of October 15, 1973, to Managing Director H. Johannes Witteveen of the International Monetary Fund, and the Fund announced its concurrence today.

The par value change was made after the enactment of authorizing legislation on September 21, 1973 [Public Law 93–110] and completion of congressional action on October 13, 1973, on an appropriation to provide for maintenance of value of U.S. subscriptions in the international financial institutions.

Exhibit 55.—Statement by Under Secretary for Monetary Affairs Volcker, November 13, 1973, before a joint hearing of the House Banking and Currency Subcommittee on International Finance, and the Joint Economic Committee Subcommittee on International Economics, on the current status of international monetary reform

The recent annual meeting of the International Monetary Fund in Nairobi marked the completion of a year of negotiations in the Committee of Twenty to reform the international monetary system. Alongside these formal negotiations, the past year has also been marked by important changes in the actual functioning of the system. I am glad to report on these matters to your two subcommittees, and I particularly appreciate your willingness to meet jointly on this occasion.

The status of monetary reform was marked by three procedural steps taken at Nairobi: Ministers set a deadline for the completion of a basic agreement on reform by the Committee of Twenty by July 31, 1974; they agreed to procedures for facilitating the Committee's negotiations, and for enabling as much work as possible to be completed well before the agreed deadline; and they published a "First Outline of Reform" summarizing the Chairman's assessment of the status of the negotiations thus far.

The deadline for reaching agreement reflects, I believe, the collective political determination to move ahead in the reform work with a clear sense of urgency and dedication. In a sense, it is a prod or a goad to the technicians and negotiators. But it is also a realistic assessment both of what is attainable and what is required. There is no doubt in my mind that, in setting such a deadline, the Ministers mean to meet it.

More generally, the tenor of the discussions at Nairobi ran counter to some doubts and false impressions which had grown in some minds about the negotiations. Certainly, tough issues central to the negotiations remain unresolved. But the Nairobi meeting did not support an impression that the negotiations are stalemated, with no solution possible or likely within a reasonable time. Nor did I detect any feeling among the politically responsible Ministers that the arrangements that have grown up over the last 2 years, culminating in the decisions last March of a number of nations to permit their currencies to float, were in themselves a satisfactory substitute for organized reform. To the contrary, I believe virtually all countries went to, and came away from, Nairobi attaching high priority to the reform effort, and with a sense that the remaining issues could be resolved.

To assist in this resolution, a schedule of Ministerial meetings of the Committee was tentatively set for January and March 1974. Meanwhile, four technical groups have been established to explore more thoroughly certain aspects of the reform proposals. These groups are designed to provide smaller, more informal forums for detailed study of individual elements that might be included in a reformed system, including adjustment rules, convertibility arrangements, the supply and composition of liquidity, and the flow of resources to poorer countries. As these groups complete their work, together with related efforts by the IMF Executive Board, the C–20 will be in a much better position to finally decide upon the components that will go into a comprehensive reform package.

The "First Outline of Reform" released at Nairobi notes areas of agreement and issues yet to be resolved. The assessment is the Chairman's: Governments are not committed to specific language, and the report explicitly and correctly recognizes that agreement on any particular issue is subject to final agreement on the reform package as a whole. The report does, however, provide a useful benchmark of the progress that has been made in some areas, and helps as well to highlight certain points at issue. I will comment on several of these in turn.

Adjustment

The problem of balance of payments adjustment is a central issue to be resolved in the reform negotiations. At the highest level of generality, there is agreement on the need to establish clear adjustment rules and disciplines falling symmetrically on surplus and deficit countries, with adequate incentives and pressures for enforcement. However, the area of agreement has tended to break down as these generalities are placed in a more operational context.

As you know, the United States has attached considerable weight to the use of movements of reserves as a so-called objective indicator of adjustment needs. We believe this is particularly important in the context of a system of general convertibility, where losses of reserves in any event bring strong, and eventually irresistible, pressures for adjustment on deficit countries.

In general terms, as the "Draft Outline" suggests, the idea of using a reserve indicator has attained support. But agreement has not been reached on the weight to be placed on that or other indicators in helping to guide the adjustment process. In the jargon that has grown up, the question revolves around the degree of presumption toward adjustment action, or in pressures or sanctions to be applied, to be associated with an objective indicator.

In contrast to the U.S. view, there are some governments that would prefer to rely much more fully on "assessment," meaning a more subjective evaluation emerging out of a consultative process. Certainly, an active consultative process is an essential ingredient of an effective monetary system. But, taken alone, experience shows it lacks the essential discipline and certainty that will be necessary. Consequently, present efforts are concentrated on finding an appropriate synthesis combining consultation, assessment, and reserve indicators in a coherent and workable whole.

Means of adjustment

Questions of adjustment encompass not only which nation will initiate adjustment action and when, but which instruments of adjustment will be used—for instance, whether domestic monetary or fiscal policies, exchange rate changes, or controls. Again, as a broad generality, there is substantial agreement with the concept that a reformed system should afford national governments that freedom of choice and action which is consistent with the needs of the system as a whole. Moreover, within this framework, there is almost universal recognition of the need to make the exchange rate mechanism more flexible and accessible as an instrument of adjustment than it was in practice in the Bretton Woods system. Thus, changes in par values would not be considered so exceptional an adjustment measure; there would be some provision for floating, and wider margins for exchange rate fluctuation above and below established par values—on the order of the margins agreed to provisionally at the Smithsonian Institution for nondollar currencies—are accepted in principle as a desirable permanent feature of the system.

This degree of consensus on the nature of the exchange rate regime is summed up in the ambiguous phrase "stable but adjustable par values, with provision for floating in particular situations." That phrase is obviously too vague, and too subject to different interpretations, to represent the last word in this sensitive area. For instance, some countries wish to circumscribe the floating option narrowly, by stating it must be transitional or temporary, by closely restricting the definition of particular circumstances, and by directing the IMF to limit its use in other respects. In the view of the United States and a number of other countries, however, practical experience strongly suggests that the so-called floating option must not be so narrowly conceived; that "particular situations," impossible to define adequately in advance, may well arise in which floating would constitute both the most effective and least disturbing course of action open to a country wishing to act in an internationally responsible manner.

Our own reform proposals, and those of others, contemplate that most countries—including the largest nations—will want to maintain established exchange rates; in other words, that par values will remain the "center of gravity" of the system. We do not see that as inconsistent with a workable floating option. What we do feel is that the essential disciplines and rules of the system should be applicable both to the management of par values and to the management of floating exchange rates so that we have a consistent whole. Indeed, viewed in that light, many of the same issues arise whatever the formalities of the exchange rate regime. A floating exchange rate, in my judgment, cannot provide a country with a means for escaping the disciplines and constraints inherent in being a part of an international economy.

Convertibility and settlement

Closely related to provisions for adjustment are the rules to govern the convertibility and settlement mechanism. Again, there is broad agreement that countries maintaining par values will be responsible for converting into agreed reserve assets those official balances of their currencies which are presented to them for conversion. Beyond that general statement, however, some countries, preoccupied with placing strict controls on use of national currencies in a new system, would prohibit new currency holdings, would make it mandatory that all imbalances from whatever source be settled by the transfer of revenues unless credits are internationally negotiated, and would centralize virtually all official settlements in the IMF.

We have felt that such a system would be overly rigid (as well as overly complicated) and probably break down in the face of sudden strains—for example, from large movements of volatile capital. On the other hand, we share the concern that, in the context of a new system, we do not again permit the growth of excessive and ultimately destabilizing balances of official currency holdings over longer periods of time.

These problems would appear in a somewhat different light if at least the main countries adopted a so-called multicurrency intervention system instead of, as in the past, centering their intervention in the exchange markets so largely in the dollar. One of the technical groups is now examining this question.

Controls

Nearly all countries are agreed that there should be a strong presumption that controls on current account transactions would be used, if at all, only in exceptional cases. However, a number of countries see a more prominent role for capital controls. We have taken the view that it is the existence of controls, not their absence, which must be justified. We want a system which would tend toward an international equilibrium consistent with market forces, rather than a balance achieved only by prolonged use of controls. The effectiveness of controls has, in any event, been demonstrated to be limited in the face of powerful speculative forces.

Reserve assets

The view is widely held that SDR's—as appropriately modified and perhaps renamed—might take on the role of unit of account, or numeraire, and in time become the main reserve asset in the new system. Consistent with this view, the diminishing trend in the official monetary role of gold would be continued, and currencies should have a much smaller role than in the recent past.

A number of difficult and complicated technical questions need to be resolved in this area concerning the methods of valuing SDR's relative to currencies, the remaining role for gold in the system, and the means of assuring a satisfactory total and composition of reserves. However, I am convinced that workable answers are available to these essentially technical problems.

I am frankly less sanguine about other aspects of the problem where the technical aspects are less formidable, but where there is a wide gulf in philosophy, differences in political perceptions, or large practical problems of implementation.

I am most seriously concerned about the various proposals for linking the creation of SDR's to development assistance—an approach which many developing countries have presented as an essential element in monetary reform. Yet, this approach seems to us to threaten at the very start the chances for making the SDR the centerpiece of the reserve system by creating, at the least, suspicion that the monetary role would in practice be subordinated to the need for aid. The need for reasonable quantities of international development assistance sustained over time seems to me plain. The question is how that aid should be provided—whether in the long-accepted manner by explicit political decisions involving specific legislative consideration, or by incorporating aid within the process of international liquidity creation, with the implicit danger that neither objective is well served.

Most approaches to monetary reform implicitly or explicitly assume a large consolidation of existing official holdings of dollars or other foreign currencies in official reserves. Technically, such a consolidation appears readily feasible, by a combination of funding or by conversion of currencies into, say, SDR. However, as the discussions have proceeded, it is apparent few countries wish to see their reserves reduced or made substantially less liquid, and many countries value highly their present freedom to hold, and handle flexibly, currencies. Consequently, the more philosophical attachment to the concept of sharply reduced currency holdings in the system as a whole is diluted by the more practical attachment to the retention of maximum flexibility by individual countries. The possibilities of achieving a solution to this dilemma will need to be explored through detailed investigation, with the objective of finding whether specific terms and conditions for consolidation can be found acceptable to debtors and creditors alike.

Finally, I should note there is widespread recognition 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. But the C-20 has yet to give detailed consideration to specific possibilities.

The interim system

The international economic environment, which forms a backdrop for monetary developments, has in recent months had to adjust to and absorb the impact of some serious disturbances. We have experienced rapid worldwide inflation. Widespread and severe shortages of agricultural commodities and energy have developed. We have seen renewed international political turmoil in the form of a war in the Middle East.

Yet, I can report these disturbances have not had a jarring impact on the interim international monetary arrangements introduced last March.

Faced with the large uncertainties arising not only from changes in the economic environment, but also from the necessary adjustments in exchange rates earlier in the year, the regime of floating exchange rates among the major industrial countries has been accompanied by fairly wide fluctuations in the value of particular currencies at particular times. At one point, during the summer, the market became somewhat unsettled. But viewed in its entirety, the flexible new arrangements appear to have proved their worth during this transitional period. They have helped to insulate individual currencies, and economies, from the shocks and imbalances arising abroad during a difficult and uncertain period. Trade and investment have continued to flourish. The atmosphere of repeated and continuing crises has faded. Given the circumstances, could any other arrangement have done as well?

To be sure, during the late spring and early autumn, there were movements in certain exchange rates beyond what most observers felt necessary or desirable in light of basic economic conditions. These movements were not generalized—they were concentrated in the value of a relatively few European currencies. Nor were they entirely unforeseeable or unreasonable, given that underlying payments disequilibria remained large. There was inevitable uncertainty following the very substantial exchange rate realignments which had taken place, and domestic political developments in the United States were receiving wide comment.

Naturally, these movements were the source of some concern. To the extent it could be helpful in maintaining an orderly market and in encouraging confidence, limited official intervention was undertaken. Since July, exchange rates have moved generally in the reverse direction, alleviating these concerns. The exchange rates between the dollar and the jointly floating European currencies are now rather close to the levels established after our February devaluation, and the dollar is stronger against several other currencies.

A critically important factor in explaining the restored confidence in the dollar and the more satisfactory performance of the exchange markets in recent months is the improvement in the underlying U.S. balance of payments position. Earlier this year, there was a good deal of uncertainty in everyone's mind as to when we could expect to see real progress in restoring the U.S. trade balance. Following the Smithsonian exchange rate changes, we had seen a continued marked deterioration in our trade figures—with the trade balance moving from a deficit of $2.7 billion in 1971 to a deficit of $6.9 billion last year. Much of this was anticipated. The deterioration of our basic competitive position was deepseated, devaluation initially worsened the trade position, and cyclical developments were adverse. Nonetheless, it was unsettling, and a considerable lag in response could have been anticipated following the February realignment.

In the event, marked improvement in our trading accounts has been evident throughout the year. Successive quarters have brought figures \$3–\$4 billion better at annual rates than the preceding quarter. Including a surprisingly strong showing in September, the trade balance was in surplus by over \$3 billion at an annual rate in the third quarter—the first such surplus since the first quarter of 1971. Even discounting the September surplus, the prospect is for continued improvement in the U.S. position. The exceptional strength of our agricultural trade—with the balance rising by \$7–\$8 billion over a year ago—accounted for the great bulk of the recovery in our trade position this year. This will not recur. As time passes, we must count more heavily on extending recent gains in the manufactured-goods sector.

Like all the major industrial countries in varying degree, the United States faces a sharply rising import bill for energy products. Obviously, this will cut into gains in our trade balance directly, as well as place new pressures on the internal price structure. I cannot estimate with accuracy the full impact of this development, but it does plainly underscore the continuing challenge of dealing with our inflation and maintaining a strong competitive position.

If we can succeed in those tasks, then we can anticipate that the U.S. external position will also be bolstered in the period ahead by strong interest in long-term investment in the United States, as well as by some reflows of funds which left this country during periods of speculation against the dollar. In the longer run, we should receive a considerable share of the investments of the oil-producing countries themselves because of the broad range of attractive investment opportunities available in this country.

Improvement in the U.S. balance of payments and a reasonably strong dollar are indispensable to effective functioning of a reformed international monetary system. But we should not mistake this welcome development, and calmer market conditions, for reform itself.

In the end, we seek—and need—a code of conduct or system of rules, broadly perceived to be in the common interest, to govern conduct when the actions of one nation impinge on another. It is difficult enough to maintain harmonious international economic relations when nations know what is expected of them. Without such rules, the potential for conflict eventually will become unacceptably great.

I would hope that a year from now we will be able to come to the Congress with specific proposals for legislation to implement agreement on reform. I recognize that this is an ambitious target. Turning a general agreement into a detailed legal agreement can be a laborious and time-consuming process. But I also recognize that, at a certain point, a search for perfection in an imperfect world can be an illusion. Our objective must be to get the essential points right, and to move with all deliberate speed to pin down that agreement.

Exhibit 56.—Press releases, December 26, 1973, announcing new adjustments in the capital outflow restraint programs

The United States is making new adjustments in the various programs that restrain capital flows out of the country. These modifications are in line with the administration's objective of phasing out the restraint programs. Details of these actions are described in separate announcements made today by the Treasury and Commerce Departments and the Board of Governors of the Federal Reserve System.

The measures taken are consistent with the improvement which is taking place in the U.S. balance of payments position and with a desire to eliminate barriers to international capital movements. In the same context, the Treasury Department will be conferring with the Congress during 1974 on the question of eliminating the withholding and estate taxes applicable to foreign investors in the United States.

Interest Equalization Tax

The Treasury Department today announced that, pursuant to an Executive order signed by the President [Executive Order No. 11754], the interest equalization tax (IET) applicable to acquisitions of foreign stock and foreign debt obligations will be reduced from the present rate of approximately three-quarters of 1 percent to a new rate of approximately one-quarter of 1 percent.

The new lower IET rate schedule will be applicable to trades and acquisitions of foreign stock or obligations made after December 31, 1973.

The IET has been in effect since July 1963, as a means of helping to restrain flows of capital from the United States into portfolio investments in other developed countries. Under the IET law, the President has authority to vary the effective rate of tax between zero and the equivalent of 1½ percent per annum on purchases of foreign securities subject to the tax. The last change in the rate of the tax was on April 5, 1969, when it was reduced from 1¼ percent to ¾ percent per annum.

Foreign Direct Investment Program

Robert H. Enslow, Director, Office of Foreign Direct Investments of the Department of Commerce, announced today the following liberalization in the foreign direct investment program effective for 1974.

1. The minimum worldwide allowable available to smaller direct investors will be raised from $10 million to $20 million.
2. The earnings allowable will be increased from 60 percent to 100 percent of foreign affiliate earnings for either 1973 or 1974, at the direct investor's election. This will permit compliance with the regulations without the necessity of foreign earnings remittance.
3. A new "debt repayment allowable" will be added to the regulations which will authorize a direct investor to repay 20 percent of its total outstanding foreign borrowing allocated to positive direct investment as of the end of the 1973 compliance year. This repayment allowable will be in addition to the minimum, historical, and earnings allowables. The minimum, historical, and earnings allowables will not, however, be available for debt repayment, and direct investors will not be permitted to reduce outstanding foreign debt below 80 percent of amount allocated effective as of yearend 1973. The regulations will operate to permit repayment of specific outstanding debt obligations, but direct investors will be required to refinance aggregate repayments in excess of the 20 percent repayment allowable. Relief for borrowing hardship situations will continue to be available through specific authorization.

Mr. Enslow stated that the 1974 liberalization is in accordance with the Nixon administration's commitment to eliminate capital controls by the end of 1974. These changes will substantially reduce the burden on direct investors to finance foreign investment with new long-term foreign borrowing while at the same time moderating any adverse impact arising from repayment of existing foreign borrowing. Mr. Enslow said that the text of the amendments to the regulations will be published in the Federal Register in the near future.

Voluntary Foreign Credit Restraint Program

The Board of Governors of the Federal Reserve System today issued amendments to its voluntary foreign credit restraint (VFCR) guidelines that will increase foreign lending and investment ceilings for banks and other financial institutions subject to the program and that will eliminate differences in the degrees of restraint on lending in developed countries.

The announcement is being made in conjunction with actions by the Treasury and Commerce Departments to change the interest equalization tax (IET) and the foreign direct investment regulations. The three programs constitute a set of restraints on capital outflow that have been part of an overall Government program to help the U.S. balance of payments. The Federal Reserve has administered the VFCR program since early 1965 at the request of the President.

The VFCR amendments approved by the Board, effective January 1, 1974, are as follows:

(1) The present ceiling for each commercial bank is increased to $10 million or to an amount 4 percent above the ceiling in effect immediately prior to the present revision. Heretofore ceilings have ranged upward in size from $500,000, depending on the size of the bank or on its historical record in foreign lending. Banks without ceilings could hold foreign assets of types subject to restraint up to the lesser of (a) $500,000 or (b) 2 percent of their end-of-1970 total assets. Under the amendment, the $500,000 minimum figure for banks with ceilings is now $10 million. Banks previously without ceilings but adopting them

under the amendment will be expected to observe the established principle that the ceilings are for loans generated directly by the "newcomer" bank and not for loans initiated by other U.S. banks.

(2) The request that banks refrain from making nonexport loans with maturities of over 1 year to residents of the developed countries of continental Western Europe is eliminated. Such loans by a bank will be left to compete for the bank's available guideline ceiling with loans to borrowers in other foreign areas. In general, such loans are, and will at this time remain, subject to the IET.

(3) U.S. agencies and branches of foreign banks will have a ceiling of at least $10 million for making foreign loans and other investments of types restrained under the program. The present minimum ceiling is $1,000,000.

(4) Agencies and branches will be able to recalculate the "base net foreign position," which determines the relationship between their foreign lending and foreign borrowing, by using 96 percent of their foreign liabilities for June 30, 1973. They will thereby be allowed to increase foreign assets, or to decrease foreign liabilities, by approximately 4 percent from amounts determined by the previous formula.

(5) The restraint against term loans to the developed countries of continental Western Europe will be dropped for agencies and branches, as it is being dropped for banks.

(6) The ceiling of each nonbank financial institution (which includes, among others, insurance companies, finance companies, and mutual funds) will be increased to an amount 5 percent above that in effect at the end of 1972 or to $2 million, whichever is higher.

(7) The request that nonbank financial institutions refrain from increasing their loans and investments in the developed countries of continental Western Europe beyond the amount held at the end of 1968 is eliminated. Any increase in such investments is left to compete for available latitude under an institution's guideline ceiling with other foreign loans and investments. The IET will continue to apply to some of these loans and investments.

(8) Periodic reports will continue to be filed by all banking institutions with $500,000 or more in foreign assets and by all nonbank financial institutions with $500,000 or more in foreign assets of types subject to restraint or with $5 million or more of total foreign assets.

Exhibit 57.—Statement by Secretary Shultz, January 17, 1974, at the fifth meeting of the Committee of Twenty, on the need for international economic cooperation

Gentlemen, we scheduled this meeting because we had a common belief that working together there was much we could accomplish through improving our international monetary arrangements. We felt we could reach agreements which, together with those achieved elsewhere, would promote international cooperation and allow each of our nations to derive greater benefit from international trade and investment.

Since the meeting was scheduled, most of the nations represented here—both more developed and less developed—have found the prospects for their economic activity, prices, and balance of payments sharply worsened. Any economic betterment we can contribute through international cooperation is, therefore, now even more urgently needed than before. And that international cooperation is all the more essential, since we do not know with any certainty which nations among us are likely to be most seriously afflicted by the new developments.

In these circumstances, the logic seems to me compelling to act as do the members of a mutual insurance society who recognize a common interest in pledging to spread the impact of a calamity which could otherwise fall with concentrated force on any one of the members. At the same time, of course, we must not only insure against the risk; our more basic task is to do all we can to reduce it.

It is imperative, therefore, that we make the most of our meeting. But, after a change in economic circumstances without precedent in magnitude and suddenness in peacetime, we obviously must rethink our priorities in the area of monetary reform. And we must act in the financial area with a full realization that our response to the current threat of economic instability will be viewed as a fundamental test of our willingness to cooperate internationally.

A number of governments, the oil exporters, have demonstrated that they can act in pursuit of immediate political and economic objectives. In doing so, the clear danger is that they will create severe economic disruption for other nations and ultimately for themselves as well.

Now we must demonstrate that we can achieve joint action among a much larger number of countries and in a more broadly beneficial manner. We must develop a broader cooperation which meets the legitimate aspirations of the oil producers for an appropriate level of compensation for their current production and for secure and profitable opportunities for investing their financial resources, while assuring that they in turn meet their responsibilities for producing in reasonable amounts without capricious manipulation of supplies or prices. We must develop a broader cooperation that does not undermine economic development in any areas of our world.

This meeting of ministers of finance is not the proper forum for discussions of all the implications of the new developments in the field of energy. Primary work must be undertaken elsewhere on agreements for the maintenance of appropriate levels of supplies and prices, on research and development, on conservation, on alternative energy sources, and on emergency sharing of supplies.

President Nixon, to insure that all this work is undertaken promptly, has issued an invitation for a meeting in Washington to ministers of a number of oil-consuming countries, together with the Secretary General of the OECD and the President of the Executive Commission of the EC. It is the President's belief, I know, that this small group can launch most expeditiously the preparatory work which will permit substantive and productive meetings to take place in the near future on a broader basis among representatives of the oil producers and the oil consumers from all parts of the world. The ultimate objective is a set of international arrangements which will permit economic development to continue on a secure basis in all parts of the world.

The recent price increases and supply disturbances of oil have created uncertainty, which—even apart from the direct costs involved—is detrimental to economic development. And, when the newly announced prices are applied to estimates of oil consumption which are in the neighborhood of previous forecasts for 1974 and later years, the arithmetic results are staggering. We have seen estimates, for example, of an increase in the costs of imported oil in 1974 of more than $75 billion just from the price increases of the last few months. Similar calculations for later years yield even larger numbers. In appraising these estimates, however, I believe we must be driven to the conclusion they are simply not realistic.

At the prices used in these calculations the consuming countries will not—and in some cases probably cannot—import such large volumes. In the more developed countries the combination of consumer choice and government controls is bound to restrict consumption of imported oil substantially even in the short run. Increasingly over time, imports will fall even further behind earlier forecasts, not only from reductions in consumption, but also from increases in production from alternative energy sources which have become economic by comparison. With the economic incentives which now exist, I suspect we shall all be surprised by the new ways of producing and of saving energy which "come out of the woodwork."

The impossibility of the initial projections of mammoth increases in import bills for oil is particularly obvious for the less developed countries which are not oil producers. I have seen estimates that their import bill alone would increase by more than $10 billion in 1974, an amount in excess of the total of official assistance which they have been receiving in recent years. Clearly it would not be possible for these countries to absorb such increases.

Conceivably these countries could turn to the oil producers to borrow some portion of the increased cost. But many of these governments are already near the limits of prudent indebtedness. Moreover, it is one thing to borrow for a promising investment project which will generate increasing revenues in the future, but it is a far different and dangerous course to borrow large amounts to cover current consumption. Of course, the more developed nations must maintain their assistance programs but, in addition, to meet the new needs, some of the oil producers must provide a substantial amount of grant assistance if current welfare and future development are not to be drastically reduced in many areas whose levels of economic welfare are already abysmally low.

Even after the inevitable reduction in future levels of imports, the increasing cost of imported energy in the near future will still be huge. The secondary effects in terms of the availability of such derived products as fertilizer must also be recognized. The extra funds paid by the importers will inevitably mean a decline in their terms of trade, a burden upon their economies, and a heavy burden on efforts to manage common affairs cooperatively. Of course, the funds paid by importers will not disappear from the face of the earth. They will be used by the recipients in part for increased purchases of goods and services and in substantial part for investment in other countries. These reflows will collectively redress the payments positions of those countries. But in the new circumstances there inevitably is great uncertainty as to which countries will receive these reflows.

Naturally we in the U.S. Government are hopeful that our businessmen will be competitive with their exports, and we know that we have a large and smoothly functioning market for investments. Yet, for us as for others, there is great uncertainty as to what will be the net impact of the new oil developments on our payments position. We had, after all, been scheduled to be the world's single largest importer of oil during the next few years. The oil price increases are likely in the short run to cause for us an even larger percentage increase in the total cost of imports than will be the case for most major countries in Europe, since oil looms larger among our imports.

For me these new developments have three basic implications for our work on monetary reform in the Committee of Twenty:

First, we must demonstrate that we can achieve international economic cooperative agreements in a timely fashion. It is imperative that we reach a substantive agreement by the date which we have already set for ourselves, July 31 of this year.

Second, in doing so, we must reorder our thinking to take fully into account the new conditions and the new uncertainties which have been thrust upon our international affairs. Our monetary reform agreements must not attempt to impose upon the system a rigidity which hampers response to future developments including, for instance, the possibility of a surfeit of energy supplies around the world in a few years time. Rather, we must agree on rules and procedures to insure there will be prompt adjustment in response to developing international monetary imbalances. We must try to avoid the mistake of giving too much weight to present conditions by simply extrapolating them far into the future, while setting the flexibility necessary to adapt and evolve the system to meet future developments.

Third, we must design financial mechanisms and arrangements to deal with the present problem. But we must be realistic and recognize that the present problem is literally unmanageable for many countries. The oil-producing countries have to recognize this simple fact and cooperate with the rest of the world in scaling down the magnitude of the financial problem to manageable proportions. Once that is accomplished we must still bring together the countries that have investment opportunities with oil-producing countries which have investable funds, so that major destabilizing forces in the world economy are avoided.

If we manage our affairs properly, it will plainly make economic sense all around for producers to pump oil in excess of their current revenue needs so that oil wealth can be put to uses which generate a greater return than would result from letting that oil increase—or possibly decrease—in value while lying in the ground. In fact, however, that oil is not likely to be produced unless the producers of the oil and the custodians of the investment projects can be brought together in a manner in which each participant feels he can rely on the contractual relationships with the other. There may be possibilities for collective action which should be given consideration in this area.

All these tasks I have just mentioned are ones for which we as Finance Ministers must take primary responsibility. But our responsibilities for constructive response to the new circumstances will not end there. We also have a vital role to play in facilitating future trade negotiations.

The recent experience of abrupt, major shifts in world supply-demand relationships in certain commodities has caused us all to rethink our policies and our methods of economic management, domestically and internationally. In this rethinking, some have concluded that recent proposals for trade negotiations should be put aside in view of more pressing problems like the energy supply constrictions and price rises or alleged world food shortages. That is the wrong conclusion.

The effort to embark on trade negotiations has much in common with our efforts in the monetary field: on the one hand, to solve specific problems, and on the other hand, to bring about a negotiating process and improved framework for trade relations which would help deal more effectively with new problems as they arise. The recent difficulties, to me, argue more strongly than ever for getting moving on the process of trade negotiations.

The exact way in which we go about this and the new priorities that may be emerging—including the avoidance of export restrictions—will need close examination. But it is imperative that the process itself be set in motion now.

While this broader process is getting underway, we have to ensure that nothing is done to make the situation worse now. No country can take unilateral restrictive trade or monetary measures to benefit some selected section of its economy or its current balance of payments at the cost of others without generating still greater turmoil in world economic relations. There would inevitably be countermeasures. Unilateral trade or monetary actions which are generated by energy problems or similar difficulties would be counterproductive. Any new trade or monetary actions should be considered in the most careful way in this delicate time, and should be kept consistent with mutual interests and obligations. Bilateral agreements between oil-producing and oil-consuming countries should themselves be fitted into an internationally agreed framework.

As Finance Ministers, with our particular knowledge of the dangers of economic instability and autarchic policies, we must impress upon our national colleagues the dangers of attempting to "go it alone" in international economic affairs in today's circumstances. We must recognize monetary cooperation plays a large part, but still only a part, in the broad effort needed to respond to the new economic challenges. With cooperation, we can find a balance in the essential needs of oil producers and consumers. With intelligence and understanding, we can avoid unemployment through excesses of financial restraint at home. If we approach our problems in common, we can maintain a fabric of reasonable stability and freedom in international commodity and exchange markets, to the benefit of all our citizens.

The new challenges have come upon us with a brutal suddenness. But the collision between growing energy demands and the slower growth in apparent supply was inevitable in any event. Let us now attempt to insure that we derive one important benefit from our recent jolting experience. Let us resolve to delay no longer and to proceed at once with the reordering of our research efforts, our production plans, and our consumption patterns to fit our new conception of the world's energy balance. In doing so, let us achieve that broad consistency among our individual actions that is essential to the success of the total effort.

Exhibit 58.—Communique of the Committee of Twenty, January 18, 1974, released at the close of their meeting in Rome, Italy

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 fifth meeting in Rome on January 17 and 18, 1974, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting which was also attended by Mr. Wilhelm Haverkamp, 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.

Members of the Committee began by reviewing important recent developments including the large rise in oil prices and the implications for the world economy. They expressed serious concern at the abrupt and significant changes in prospect for the world balance of payments structure. They recognized that the current account surpluses of oil-producing countries would be very greatly increased, and that many other countries—both developed and developing—would have to face large current account deficits. In these difficult circumstances the Committee agreed that in managing their international payments countries must not adopt policies which would merely aggravate the problems of other countries. Accordingly, they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments. They further resolved to pursue policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. They recognized that serious difficulties would be created for many developing countries and that their needs for financial resources will be greatly increased; and they urged all countries with available resources to make every effort to supply these needs on appropriate terms. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives. They noted that the International Monetary Fund, the World Bank and other international organizations are concerned to find orderly means by which the changes in current account positions may be financed, and they urged that these organizations should cooperate in finding an early solution to these questions, particularly in relation to the difficult problems facing non-oil-producing developing countries. In particular, while recognizing the uncertainties with regard to future developments in the field of energy, the Committee agreed that the proposal of the Managing Director of the International Monetary Fund for a temporary supplementary facility should be urgently explored. It is recognized that such a facility poses operational problems which must be resolved and would, particularly for non-oil-producing developing countries, be only a partial measure, in view of the nature and magnitude of the balance of payments problems created.

The Committee expressed its determination to complete its work on the main features of a reformed international monetary system in the coming months. They recognized that, in the light of the recent developments in the world economy noted above, priority should be given to certain important aspects of reform affecting the interests both of developed and developing countries, with a view to their early implementation. Other aspects of reform could be agreed with the understanding that their operational provisions would be developed and implemented at a later date. The Committee agreed that the Deputies should arrange to study the broad question of the transfer of real resources, including all aspects of capital transfers, and that there should be a report to the next meeting of the Committee.

The Committee discussed the valuation and yield of the SDR. They agreed that further attention should be given to the question of protecting the SDR's capital value against depreciation. In the present circumstances the Committee agreed that, for an interim period and without prejudice to the method of valuation to be adopted in the reformed system, it would be appropriate to base the valuation of the SDR on a "basket" of currencies. They invited the Executive Board to work urgently on the composition of a basket of currencies, the effective interest rate, and other outstanding questions, with a view to early adoption by the Fund of this method of valuation.

The Committee discussed certain aspects of the future structure of the International Monetary Fund. They agreed that in the reformed system it would be desirable to establish, between the full Board of Governors and the Executive Directors, a permanent and representative Council of Governors with twenty members. They agreed that the Council should meet regularly, three or four times a year as required, and should have the necessary decision-making powers to manage and adapt the monetary system, to oversee the continuing operation of the adjustment process and to deal with sudden disturbances which might threaten the system, while maintaining the role of the Executive Board. As an interim step, pending the establishment of the Council, it was agreed that a Committee of the Board of Governors should be created, with an advisory role in the same areas as the Council and with the same composition and procedures. This Committee would come into being when the Committee of Twenty has completed its work. The Executive Board was invited to prepare for the Board of Governors a draft Resolution to create such a Committee, giving due consideration to the need for adequate consultative machinery and the protection of the interests of all Fund members.

The Committee received reports from the Chairman of the Deputies on the progress of the technical groups set up after the Nairobi meeting and urged them to complete their work if possible before the next meeting of the Deputies. They also received a report on the Deputies' preliminary discussion of conditions and rules for floating in the reformed system. They instructed the Deputies, in cooperation with the Executive Board, to continue to work on these questions and to report to the next meeting of the Committee.

The Committee discussed their future program. They agreed that, following meetings of the Deputies in March and May, the Committee would aim to complete its work on the reform at a meeting to be held in Washington on June 12–13, 1974.

Exhibit 59.—Press releases, January 29, 1974, announcing effective termination of capital outflow restraint programs

As indicated in separate announcements by the three agencies, the Treasury and Commerce Departments and the Board of Governors of the Federal Reserve System have taken coordinated actions which effectively lift the restraints which have been in force, in varying forms, since 1963 on capital outflows from the United States.

The actions are appropriate in light of the recent improvements in the U.S. balance of payments position, the strong position of the dollar in the exchange markets, and the desirability of avoiding official restrictions on the flow of capital to points of need at a time when the balance of payments positions of many countries have been sharply changed by the repercussions of the higher oil prices.

While the programs of active restraint have been ended, certain reporting requirements will be retained for the time being to assist in monitoring balance of payments flows and the international transactions of U.S. businesses and financial institutions.

INTEREST EQUALIZATION TAX

The Treasury Department announces that the effective rate of interest equalization tax (IET) has been reduced to zero, in accordance with an Executive order signed by the President. The new zero rate will be applicable to trades and acquisitions of any foreign stock or debt obligations made after January 29, 1974.

Under the interest equalization tax legislation, the President has the authority to reduce the rate of the IET to zero when that action is consistent with the balance of payments objectives of the United States. The IET has been applied since July 1963, in order to help restrain the outflow of capital from the United States into portfolio investments in other developed countries. The rate of tax has been changed from time to time. The last such change became effective January 1, 1974, when the rate was reduced from 11.25 percent to 3.75 percent with respect to foreign stocks and from a rate equivalent to a charge of approximately 0.75 percent per annum to a rate of approximately 0.25 percent per annum on foreign debt obligations.

The Internal Revenue Service will provide guidelines on the effect of this order on reporting and compliance procedures in forthcoming information releases.

EXECUTIVE ORDER MODIFYING RATES OF INTEREST EQUALIZATION TAX

WHEREAS I have determined that the rates of tax prescribed under section 1 of Executive Order No. 11754 of December 26, 1973, with respect to acquisitions of stocks of foreign issuers and debt obligations of foreign obligors made after December 31, 1973, are higher than the rates of tax necessary to limit the acquisitions by United States persons of stocks of foreign issuers, and debt obligations of foreign obligors within a range consistent with the balance-of-payments objectives of the United States:

NOW, THEREFORE, by virtue of the authority vested in me by section 4911 (b)(2) of the Internal Revenue Code of 1954, and as President of the United States, it is hereby ordered as follows:

Section 1. Section 1 of Executive Order No. 11464 of April 3, 1969, as amended, is hereby amended to read as follows:

"Section 1. *Rates of Tax.*

"(a) *Rates applicable to acquisitions of stock.*
The tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of stock shall be equal to zero percent of the actual value of the stock.

"(b) *Rates applicable to acquisitions of debt obligations.*
The tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of a debt obligation shall be equal to zero percent of the actual value of the debt obligation measured by the period remaining to its maturity."

Sec. 2. With respect to acquisitions of stock of foreign issuers and debt obligations of foreign obligors made under the rules of a national securities exchange registered with the Securities and Exchange Commission or under the rules of the National Association of Securities Dealers, Inc., this Order shall be effective for acquisitions made after January 29, 1974, but only if the trade date was after January 29, 1974. In the case of other acquisitions of stock of foreign issuers and debt obligations of foreign obligors, this Order shall be effective for acquisitions made after January 29, 1974.

RICHARD NIXON.

VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM

The Board of Governors of the Federal Reserve System announced today the termination of its voluntary foreign credit restraint guidelines (VFCR), effective immediately. The program was designed to restrain foreign lending and investment overseas by banks and other financial institutions.

Today's announcement is being made in conjunction with actions by the Treasury Department to reduce the interest equalization tax to zero and by the Commerce Department to terminate its foreign direct investment restriction. The Federal Reserve has administered the VFCR program since early 1965 at the request of the administration.

In announcing its action, the Board said it will request banks and other financial institutions to continue during 1974 to report their overseas lending and investments to the Board, but in substantially reduced detail.

FOREIGN DIRECT INVESTMENT PROGRAM

Robert H. Enslow, Director, Office of Foreign Direct Investments, U.S. Department of Commerce, announced today that the foreign direct investment controls administered by the Office are terminated effective immediately. This action includes rescission of the controls on repayment of outstanding foreign borrowings announced on December 26, 1973.

The foreign direct investment program administered by OFDI was instituted on January 1, 1968, in response to the deterioration in the U.S. balance of payments position.

Mr. Enslow stated that direct investors will be required to submit reports regarding compliance during 1973 with the Foreign Direct Investment Regulations. The Office will issue simplified reporting forms in the near future for use in gathering economic statistical information on the current and future foreign investment activities of a substantially reduced number of direct investors.

Exhibit 60.—Statement by Secretary Shultz, February 8, 1974, before the Joint Economic Committee, concerning the world economic environment and its implications for U.S. policy

Since your review of the economy last summer, we have witnessed an abrupt change in world economic circumstances. The cutback in oil production and the precipitous increase in oil prices have dramatically affected prospects for world production, employment, price stability, and balance of payments equilibrium. The lives of people in all parts of the world are directly affected, with potentially devastating effects on those in the poorest countries who can afford it least.

Chairman Stein and his colleagues on the Council of Economic Advisers have discussed with you the prospects for our domestic economy in light of these developments. My statement today will concentrate on the world economic environment and its implications for our policies in the period ahead.

The world economy: Boom, shortages, and inflation

The oil crisis developed late in 1973. It came on top of a situation already characterized by worldwide shortages of foodstuffs and industrial raw materials and the most serious general inflation since the World War II period.

To a considerable extent, these conditions were an outgrowth of world boom. The major industrial countries for the first time since the Korean war found themselves facing similar cyclical situations, with strong demand pressures, strains on capacity, and rapid inflation. Price increases, summarized in table I, were of depressing magnitudes. For the major industrial countries as a group, consumer prices increased about 9½ percent. U.S. consumer price increases, at 8.8 percent, were only slightly less than average. The pressure on commodity prices was reflected in the much sharper wholesale price increases in almost all countries, with the increase in the United States amounting to 15.5 percent.

As this contrast suggests, what the world experienced last year was essentially a commodity price inflation. World commodity prices rose two or three times as fast as prices of finished goods and services, and the pressure on commodities accounted fully for the acceleration in rates of inflation. Food prices alone may have been responsible for half the increase in consumer prices in the major industrialized countries, and toward the end of the year particularly, energy prices also contributed heavily.

TABLE I.—*Price increases in major industrial countries, 1969–73*

[Average annual rate of increase]

	Consumer prices [1]		Wholesale prices [1 2]	
	1969–72	1973	1969–72	1973
United States	4.6	8.8	3.9	15.5
Canada	4.0	9.1	4.6	18.1
Japan	6.0	15.0	3.0	13.5
United Kingdom	7.2	9.9	7.1	10.0
France	6.1	8.7	6.3	13.5
Germany	4.9	7.0	3.9	8.3
Italy	5.4	11.3	6.2	28.0
Total OECD	5.0	9.6	4.3	14.2

[1] Percentages for 1973 are calculated for the latest 12-month period available.
[2] Since aggregate wholesale price indices are not generally available, indices are those of the wholesale prices of manufactured goods, or closest available alternative.

Sources: OECD; Department of Labor.

Supply deficiencies at a time of worldwide boom were the principal factors behind the escalation of commodity prices. The combination of natural forces which led to inadequate harvests over the past 2 years—there was in fact a fall in worldwide agricultural production per capita in 1972—produced a scramble for food supplies in a world accustomed to worrying about surpluses. Shortages of other raw materials, such as nonferrous metals and timber, also developed.

Domestic markets in some countries, where currencies appreciated during the year, were partially shielded from the strong international price pressures. Others, whose currencies depreciated, such as the United States during the first half of the year, were not only fully exposed to the world trend, but had to absorb an additional source of inflationary pressure. But these exchange rate changes—which made an essential contribution to restoration of international payments balance—should not obscure the main point that no country could escape a pervasive worldwide phenomenon.

The cuts in oil production imposed in the Middle East for essentially noneconomic reasons then created supply difficulties in another critical area, and the resulting increases in oil prices dramatically altered world economic prospects. From a $2 per barrel range in September, we saw open market prices of crude rise to in excess of $15 per barrel within a brief period.

The low point of oil production seems to have been reached in November; by January, production was about at the same levels as consumption, which has of course been reduced. With easing of supplies, and the continuing efforts to reduce consumption around the world, arm's-length market prices have declined. By the end of January, it appeared that spot market prices had fallen to the $10 to $11 per barrel range. There can be no certainty how greatly consumers—and their governments—will be inclined to reduce their consumption in the light of the higher prices. But it seems likely that consumption this year at anything even approaching present prices would be significantly less than what the free world could produce through responsible and efficient use of existing and planned facilities. It seems likely, therefore, that market forces will push in the direction of further reductions in the open market price of oil in the international market.

Moreover, looked at as an economic phenomenon, I am convinced the current levels of international oil prices are neither sustainable nor tolerable over a longer period. As we look ahead, additional sources of energy can and will be developed at lower cost. Yet compared to earlier years, the future cost of energy will be high. This implies a fundamental change in the world economy—a reevaluation of one of the basic tenets of a world industrial society built on the assumption of relatively cheap and plentiful oil.

Fortunately, in areas other than oil a few encouraging signs are visible in the battle against inflation. Food production is expanding rapidly, and with normal weather, a record crop is in prospect this year. The prospective slowdown of the boom in the industrial countries should temper pressures on raw material and commodity prices. Also, for the United States, the recent strengthening of the dollar, and consequent fall in the cost of our imports, can help dampen inflationary pressures.

Internationally, one possible danger is that attempts will be made to maintain exorbitant commodity prices through the exercise of sheer monopoly restraint on supplies. It should be possible to avoid this danger without confrontation through a constructive dialogue aimed at identifying and meeting the legitimate needs of consumers and producers alike.

At home, it is important that the effects of the rise in commodity prices are not aggravated by irresponsible pricing policies or abandonment of the responsible pattern of wage settlements we have seen in the past year—a process that in the end would only be self-defeating by twisting the cost-price screw another turn. Finally, as we pass from overheated boom and face the new problems of production and employment imposed by energy shortages, we must not lose sight of the inflationary dangers of lax budgeting or excessive money. We should be, and we are, prepared to adapt our monetary and fiscal policies flexibly as the need is demonstrated. But, as we appraise that need, let us recognize that more money is not a substitute for more oil.

The world economy: International payments

The prospect that the world was moving toward a better balance of payments equilibrium has been vastly altered by the recent oil price increases.

There have been suggestions that current price levels imply a $75 billion jump worldwide in the annual costs of imported oil. These estimates assume the price rise comes on top of previous forecasts of oil consumption. This same calculation would imply an increase of perhaps as much as $10 billion in the annual oil import costs of the less developed countries which are not oil producers, an amount exceeding the total official assistance they have been receiving.

These calculations are obviously purely mechanical. In fact, no one knows what prices the consuming nations will be paying for oil imports this year. Higher oil prices and conservation measures do lead to reduced oil consumption and a lesser volume of imports. With higher revenues, oil exporters will expand their purchases, mainly from industrial countries.

Even making some allowances for these factors, there have been estimates that the investable funds of oil producers could increase this year by more than $50 billion. This would imply a deterioration in the current account position of the rest of the world of a corresponding magnitude.

The implications of a change of this magnitude, coming with such abruptness, are difficult to comprehend. For a number of developing countries, the calculations must plainly have an air of frightening unreality. They simply do not have the funds to pay, or any realistic prospect of repaying loans in the large volume that would be required. Nor can industrialized countries find the consequences acceptable, even though in the aggregate they can anticipate large flows of investment from the oil producers.

We therefore must act promptly to bring the problem within manageable proportions, both by reducing its magnitude and by developing cooperative techniques for handling it. In doing so, we believe we can be working with, and not against, the legitimate aspirations of the oil exporters for fair compensation for their resources, and for stable and profitable investment outlets. The consequences of failure are evident. We are already beginning to see tensions mount as countries begin to react to the prospect of swollen oil import bills. The exporting countries can have no real interest in actions which severely disrupt the economies of their customers.

Obviously, the pressures and the means for handling them are not evenly distributed among all nations. The United States and some other countries could, if necessary, through their own actions cope with the problems which these oil price increases create, although the impact on the United States will be a good deal more serious than many seem to realize. The United States was prospectively the world's single largest importer of oil, and under any foreseeable circumstances, our oil import bill will soar in the near term. Oil imports were expected to represent a bigger proportion of our total imports than is true of most major European countries.

On the other hand, our strength is that, even in the short term, we are in a better position than many to conserve on our consumption of oil and to cut back our oil imports. We are the world's largest producer of oil, with many good possibilities for increasing our output; and over the longer term, we are capable of becoming fully independent of foreign oil. While I would discount substantially the fact that in December we had the largest monthly trade surplus in our history—over $940 million—we fortunately do not start from a deficit balance of payments position.

The strong turnaround in the U.S. balance of payments last year is traced in table II. Although the final figures for the fourth quarter are not yet available, we expect that they will confirm that the marked improvement in the trade balance was accompanied by better results in the other accounts.

An integrated approach

No matter what the precise impact on the United States and other countries is individually, the very substantial adjustments the world now faces present a sharp and fresh challenge to our ability to work together in the common good. The challenge needs to be met on four fronts, each crucial to the whole: by devising new forms of cooperation to deal with the energy situation; by completing our negotiations for reform of the international economic system and to liberalize world trade; by maintaining the momentum of development; and by working to restore the fabric of international stability torn by inflation, payments imbalances, and now the oil crisis.

TABLE II.—*U.S. balance of payments, 1970–73*

[In billions of dollars]

	1970	1971	1972	1973 [2]
Exports	42.0	42.8	48.8	70.3
Imports	39.8	45.5	55.7	69.5
Trade balance	2.2	−2.7	−6.9	0.8
Investment income and other services	1.5	3.5	2.3	0 to +1
Unilateral transfers	−3.2	−3.6	−3.7	
Current account balance	0.4	−2.8	−8.4	+1 to +2
Government capital flows, net	−2.0	−2.4	−1.3	−1
Long-term private capital flows, net	−1.4	−4.4	−0.2	
Balance on current account and long-term capital	−3.0	−9.6	−9.8	0 to +1
Short-term capital and errors and omissions	−1.7	−13.1	−4.8	−8 to −9
Net liquidity balance [1]	−4.7	−22.7	−14.6	−8
Official reserve transactions balance [1]	−10.7	−30.5	−11.1	−5½

[1] Excluding SDR allocations.
[2] 1973 figures, except for the trade figures, are estimates or preliminary.

1. *Energy cooperation.*—We hope that the international energy meeting to be held next week will succeed in reaching a common analysis and understanding of the energy problem, and will begin to define the nature and scope of new forms of cooperation to deal with it. The agenda for the meeting includes questions of reliable supply, conservation, development of alternative energy sources, research and development, emergency sharing of supplies, and financial management. We are looking forward to consultation with developing countries, and we want to lay the base for constructive discussions with producing nations.

What we want is not confrontation but cooperation, in the conviction that in the end producers and consumers both will find a large common interest in reconciling their needs in a manner which is consistent with economic stability, open trade, and rapid development. All nations need to have confidence that goods they need will not be arbitrarily restricted, and that, conversely, markets will not be closed to them. All will benefit from increased supplies of energy. All need a framework of financial stability.

2. *Monetary and trade reform.*—Our efforts to reform the international monetary system were reassessed in the light of uncertainties related to the oil situation at a meeting of the Committee of Twenty in Rome last month. The Committee decided it should complete its work on the main features of a reformed monetary system as quickly as possible—hopefully at its next meeting, scheduled for mid-June. At the same time, we recognized that in some areas, the desired approach could only be implemented over time in an evolutionary way, and that a number of important operating characteristics of the system would need to be worked out in detail later.

It was also agreed that, in light of recent developments, intensive attention should be given to certain needs that are both immediate and "do-able," in order that elements of reform of particular relevance to present conditions can be put in place as promptly as possible.

One critical requirement is to find new procedures for improving the effectiveness of the International Monetary Fund and continuing cooperation among financial officials. A long step toward that objective was taken by agreement that a 20-member Council of Governors would be established in the IMF, or, pending the formal and legal establishment of the Council, a temporary Committee. The Council would meet regularly, three or four times a year, with broad and continuing authority to manage and adapt the monetary system, to oversee the continued operation of the international balance of payments adjustment process, and to deal with sudden disturbances which might threaten the monetary system. The Council, or the temporary Committee, would come into being when the C–20 finishes its work and will be charged with continuing the evolutionary process of reform within the context that the C–20 has established.

Other aspects of reform will also be included in the substantive agreement that we expect the C–20 will reach in June. One need is to establish techniques for valuing the SDR in situations—like the present—in which most of the major currencies are floating, and important elements of an agreement on that point were developed in Rome. More broadly, the long discussion of the need to develop codes of conduct to guide the operation of the adjustment process should be brought to a conclusion. I am encouraged that discussion on appropriate guidelines for floating will become more intensive in coming months, and some convergence of approach seems to be developing.

Developments of the past year lead us also to consider new priorities in the trade negotiations. More emphasis is needed with respect to restrictions on the supply of internationally traded commodities, alongside the traditional emphasis on access to markets. The barter deals some countries are negotiating with oil producers raise anew the old questions about the role of bilateral trading arrangements in a multilateral order and how they may be placed within a framework of generally agreed rules. I think it essential that the debate on these issues—and debate it will be, for there is certainly no consensus—should be initiated promptly.

The tensions inherent in the major trade and balance of payments adjustments that countries will experience shortly—even with more reasonable oil prices—underscore the importance of maintaining the impetus toward trade liberalization. The difficult problems ahead can be solved more easily within a context of expanding world trade, encouraged by renewed progress toward trade liberalization.

I hope the Congress will move expeditiously to complete action on the trade legislation before it. Few things would be more damaging to the prospects for cooperative solutions to our common problems than the appearance that the United States was faltering in its commitment to a liberal and reformed international trading order.

3. *Economic development.*—The third task I cited earlier was to maintain the momentum of economic development. I have already emphasized the new burden on developing countries from the higher oil prices. I see no way that aspect of the problem can be reasonably handled unless those oil producers with excess funds provide grant and other concessional assistance to offset the soaring cost of oil

imports to the LDC's. But such assistance devised to meet new needs in no way can substitute for the assistance programs now in place financed by the industrialized world. Indeed, the need for maintaining, and even expanding in an orderly way, those programs is at least as urgent as before. The new problem of the oil situation simply cannot be an excuse for further compounding the extreme difficulties of the poorest people in the world, further widening the gap between the "haves" and "have-nots."

The United States is being asked—and properly so—to bear a fair share of that cost. We cannot, in my judgment, fail to answer that call without severely damaging the entire fabric of the cooperative world order that we promote. In that context, the action by the House of Representatives last month in voting down the bill for replenishment of the resources of the International Development Association is particularly disturbing. We want to work closely with the Congress in the period ahead with the objective of carrying out our share of this joint effort—a share, I should point out, that has been reduced at our request to one-third from the 40-percent level maintained earlier.

4. *Maintaining international economic stability.*— As we move ahead in those areas, we need to deal on a continuing basis with the threats to international economic stability inherent in the present situation. Temptations for individual countries to seek their economic salvation at the expense of their trading partners are present. Fortunately, it is equally apparent that such actions would not only be self-defeating in their immediate objective, but could leave us all worse off, caught in a maze of controls, restrictions, and dislocations that impair growth and stability. The need is to make sure that the intellectual understanding of the common danger is, under the pressure of swiftly moving events, made effective in our national decisionmaking.

In approaching this problem against the background of large imbalances in international payments, sudden changes in payments flows, and rapid inflation, I believe there is a general consensus that, for the time being, a general system of par values and fixed exchange rates would not be workable or desirable. While the sizable changes in exchange rates in the past year have posed some problems, floating rates have probably worked better than any other system that could have been devised during the past year. We have seen trade and investment continue to prosper, and businessmen and bankers have been able to accommodate to the situation. At the same time, the new uncertainties created by the rise in oil prices emphasize again the need for exchange rate policies which are internationally responsible, whether par values or floating rates are used, if the destructiveness of competitive devaluation is to be avoided.

A floating regime, like a par value system, requires agreed principles of good conduct if conflicts are to be avoided. We believe criteria relevant in a par value system are also relevant to floating. For instance, under either regime, the aim should be to avoid prolonged imbalances, and significant movements in reserves can help tell us when governments unduly resist market forces and suggest when policies need to be adapted. In either regime, we should not use widespread controls on trade or capital to maintain an undervalued exchange rate. As I suggested earlier, in coming months I hope we can reach agreement on broad guidelines to help assure cooperative behavior in this area.

At the end of January, the United States was able to announce the effective elimination of our capital control programs. This move was, of course, made possible by the improvement in our balance of payments position and the stronger performance of the dollar. We also felt that, at a time when many countries are concerned about how they might finance deficits in their current balance of payments, ending of our controls could provide an important element of reassurance. I am gratified that the move has been widely accepted as constructive, and a number of other countries have also reduced controls.

Conclusion

Mr. Chairman, the problems in the year ahead pose the greatest challenge to the spirit of international cooperation since we viewed the ruins of World War II. Our success in the past quarter century in finding cooperative solutions gives us grounds for hope that we can do so again. If we are to expect of our partners the responsible conduct now required, we must not fail in our own responsibilities.

Exhibit 61.—Outline of statement by Secretary Shultz, February 11, 1974, before the Washington Energy Conference

The Need for Closer International Financial Cooperation

Finance officials have a duty to work closely together in the realization that even our best cooperative efforts will offset only a fraction of the serious damage which has been done to many countries by the abrupt and spectacular increases in oil costs.

At the same time, we must carefully avoid creating the misleading impression that such cooperation provides any panacea for the serious economic problems before us. There is no international financial arrangement which can offset the real effects of the oil price changes. It is important that we not kid ourselves here—that we not, as Ministers of Finance, give the impression that somehow or other we can print up some money and use it to "paper over" very real problems.

The problems are there. There is no way to concoct a financial solution that will avoid facing up to severe dislocations and, I think particularly for the developing countries as has been brought out by many speakers here, great deprivation. In a sense we have that horrible chain in which the lack of fuel goes to a lack of fertilizer, goes to a lack of food, and which goes to starvation. So a point that I want to make is that I think for many the situation is not one in which we say to ourselves: "Yes we see the problem; let us understand it and then figure out how somehow through financial means to handle it." It is for many not a manageable problem in its present state, and we have to see how it can be changed so that it is manageable.

We need to be concerned not only with the direct impact of higher prices and supply disturbances on our economies, but also with the serious threat of secondary repercussions from instability in financial markets, from inconsistency in internal economic management and in balance of payments policies, and from impaired economic development. These are areas in which we can make a contribution and why now, more than ever, we have an obligation to seek the optimum contribution from close international economic cooperation.

We have heard reports in this conference already that this year, and over the next few years, the standards of living of the more developed nations will be reduced significantly below previous expectations. In the short run, we are facing the problem of adjusting to reduced supply, and this has affected our immediate prospects for growth. But as this problem is met, our real income will continue to be affected both by the higher costs of energy imports and by the higher expenditures which nations will find it prudent to make in reaching reduced future dependence on imported energy. Nonetheless, the standards of living of the nations here represented will remain a large multiple of those of some of the less favored nations.

In contrast, the effects of the oil price changes are likely to be near catastrophic for some of the poor areas of the world. In some countries, it is even probable that the new energy costs will result in a reduction of standards of living over the next few years from the present abysmally low level—to the point, in some cases, of starvation.

We have heard estimates that even after projected reductions in market prices of oil below present levels, the developed countries could have their combined current account deficits worsened by as much as $40 billion; the developing countries could have their current account deficits increased by as much as $10 billion; and the oil-producing nations could add as much as $50 billion to their foreign asset holdings—all in the one year, 1974.

In the face of such possibilities, I suggest that it would be in our mutual interest to agree on some basic principles on how we should respond in our economic policies, national and international. I put forward three principles for your consideration:

First, at a time of vast new uncertainty, let us each recognize the need to develop internal policies that maintain our production and demand, and deal with inflation, without aggravating the problems of others. This will require not only particularly careful analysis, but also particularly close international consultation and cooperation. In this connection, we know that the cost-push effects of oil prices reinforce the strong upward pressures on our price levels. Yet, at the same time, we need to recognize that the greatly increased cost of our oil imports could affect our economies as would a massive increase in taxes from which the revenues were not currently being spent. In this case, of course, this "tax" will be reflected in higher dollar imports, rather than government revenues. But that import bill should not carry the same connotation, or draw the same policy response that we usually associate with a deteriorating trade position. We must realistically take account of potential increases in exports to oil-producing countries, and more important quantitatively the potential large availability—directly and indirectly—of flows of investment funds from the producing countries.

Second, in our international policies we must agree to keep open our markets for goods and capital, and to avoid the temptation of competitive devaluations. No nation can impose trade restrictions and other "beggar-my-neighbor" policies without engendering retaliation so that the whole process would be self-defeating and destructive. Now more than ever during a period when international adjustments will necessarily have to be large and rapid, governments must maintain momentum for the removal of existing distortions from the international economy. They must proceed resolutely with planned trade negotiations and with feasible further dismantling of capital controls. And they must agree to undertake special efforts to resist those pressures for the introduction of special-interest-serving government controls and interventions which are likely to be put forward during any time of rapid economic change.

Third, in our development policies, we should endeavor at least to maintain recent levels of assistance to the most seriously disadvantaged nations and encourage oil-producing nations with rapidly increasing holdings of foreign assets to take immediate steps greatly to expand their programs of assistance for the developed nations in full cooperation with industrial nations and international institutions.

In the light of the new burden of energy costs upon their economies and their balance of payments, it will not be easy to maintain a climate of opinion in the developed nations to maintain or increase past levels of assistance to the least developed nations. But, in view of the extreme distress faced by some areas of the world, and the economic and political consequences, it would be shortsighted and inhumane for the developed nations to curtail assistance plans and programs at this time of greatest need.

But even with continued assistance from the traditional providers of aid, the least developed nations are faced with a tremendous gap in needed resources. Some of the most important oil-producing nations—themselves moving rapidly from poverty to affluence and with natural understanding for the problem—can reasonably be called upon for a major contribution toward reducing that gap.

No channel of aid should be neglected. Increased assistance may be made available through direct country-by-country relationships, through new or already established regional institutions, and through increased contributions to the existing broad multilateral financial institutions. But, in view of the extreme need and the weakened financial position of many of the least developed nations, it is essential that a substantial proportion of the increases in assistance be in the form either of outright grants or of their equivalent.

As we seek to incorporate these general principles into practical actions, I believe our work can be divided naturally into four broad areas of cooperation:

I. Measures to help ensure that we maintain open markets.

II. Measures we can take to deal with or reduce the uncertainties inherent in the present situation—uncertainties related both to the extent of oil price increases and to the directions in which the flows of producing-country money—much of which will be short term—will be channeled.

III. Measures we can take to facilitate a larger portion of these funds to move into longer term investment in ways beneficial to both the investing and recipient nations.

IV. Measures we can take to encourage and facilitate the flow of resources from oil-producing countries to LDC's, particularly the poorest of them.

I. Measures to maintain open markets

The principle of avoiding restrictions on trade and payments that have the effect of transferring problems to others has wide support; the question is how we can reinforce that principle in practical institutional and operational terms.

The countries here represented include the largest trading nations. Should we not pledge among ourselves, here and now, to take no trade-restricting measures—surcharges, quotas or their equivalent—for balance of payments purposes?

For the future, we would be willing to consider new institutional means and procedures whereby we would pledge no trade-restricting action for balance of payments without prior discussion and approval by the IMF.

II. Measures for dealing with uncertainty

A. We know, *in the aggregate*, the money spent for oil and not used for our exports, will flow back largely short term. But each country is left uncertain as to the size of its increased import bill and the directions which the reflow of investment money will take. Some countries may naturally attract more or less of this money than their increased balance of payments drain.

1. Much of this sorting out can take place in private markets, and by official borrowing, where necessary, in private markets. Obviously, the flows may take place through home markets or third markets, such as New York or the Eurocurrency markets.
2. In sheer bulk, this is mainly a problem for developed countries. Because some LDC's may have special difficulties obtaining credit, different techniques will be necessary there.

B. One thing we can do is be sure private markets are sufficiently free to do the recycling job.

1. Removal of U.S. controls has opened the largest and most efficient capital market once more to the world. Other nations have made moves in the same direction. I believe the results will be beneficial.
2. In the present situation, part of our financial "ethic" should be to permit our nationals to borrow abroad, particularly for countries facing deficit. Conversely, potential surplus countries should permit funds to flow out.

C. Private borrowings, in some cases, will need to be supplemented by official borrowing. Our markets, the Euromarkets, and some others are open. But, possibly, a scramble for money, and sharp pressures on one market or another, could develop in no one's interest. Therefore, it may be worth considering at least informal and confidential exchanges of information about prospective borrowing operations among major nations. Then nations could act in the knowledge of each other's intentions, and help avoid alternate periods of congestion and vacuums in money and capital markets that could in turn affect exchange markets.

D. At times, intergovernmental borrowing may be necessary and desirable, and a greater sense of certainty that such facilities would be available in time of need could be very useful—even if it turns out in the end that such facilities are not used heavily, or at all.

1. This is classic purpose of IMF credits, and those lines fortunately are little used at present. Consequently, there is some spare capacity.
2. A further line of defense, which can readily be expanded, are central bank swap lines. We have indicated a willingness to do this, at least on a selective basis, and we would welcome discussion of the appropriate role and limits of such facilities.
3. Beyond these facilities, the question arises as to whether existing international institutional facilities need to be expanded and rearranged to deal with uncertainty about the direction in which funds will move and, if needed, rechannel funds to take care of balance of payments needs in short or medium term. As we understand it, the proposal made by Mr. Witteveen falls into this category, and has attracted most attention.
   (a) We feel it essential, in evaluating this proposal, to distinguish sharply the problem of uncertainty and the need for rechanneling potentially sizable amounts of money for limited terms among countries able to repay relatively promptly from the more severe (but quantitatively smaller) problem of the poor LDC's which need grants and heavily concessional long-term aid.
   (b) Even among developed countries and more prosperous LDC's a "Witteveen-type" proposal presents difficult tech-

nical and negotiating problems in deciding upon suitable terms. We await further elaboration of Witteveen's thoughts, and in particular how the risk of building up nominally short-term, but in fact unrepayable, credits can be handled. We intend to react constructively.

III. Measures to facilitate orderly longer term investment patterns
   A. Removal of restraints on longer term investment is equally relevant.
   B. Given the vast flow of potential investment, serious and difficult questions arise in the minds of both investors and recipients that may hamper flows:
      1. The investor wants and needs the widest possible diversity of outlets (i.e., open capital markets), professional investment management, and confidence that his investments are secure from political action by recipients.
      2. The recipient wants to have some assurance that investments will not be managed for political purposes, and the prospect of reasonable stability in flows.
   C. I have no specific proposal in this area. However, I raise for discussion one question: Should we consider a new international investment institution—a kind of multinational joint venture, with participation in management by both investor and recipient nations—as a means of helping to satisfy the concerns I have cited? An essential aim of the institution would be to achieve a diversity of profitable investment outlets, with expert investment management, for the producers. At the same time, the multilateral umbrella might help put to rest mutual fears of political reprisals, thus encouraging recipient countries to permit larger amounts of investment and encouraging investor countries to commit sizable funds for extended periods.

      Obviously, in managing such an institution, the investing countries would legitimately maintain control over some basic decisions concerning the volume and distribution of the funds. Many complex organizational problems would arise. Are they worth discussion?
   D. We might exercise our collective imagination to devise other means of better assuring the safety and stability of investments.

      An international investment guarantee agency has been discussed at length in the past—fruitlessly. But now the problem appears in another guise, and fresh thinking with the producers may be desirable.

      The United States earlier advanced the concept of an "investment fund" for countries with large official pools of investment money. This concept rested on an essentially simple code of conduct or "rule of the road." A recipient country would be entitled to know how much investment of what type was being made by other governments in its currency and to limit the aggregate amount of that investment. But having agreed to that investment, it would also agree to treat that investment in a nondiscriminatory manner.

      These questions might well serve as the basis for further international study.

IV. Measures to encourage the flow of resources from oil-producing nations to the less developed countries

The LDC's pose a special problem. The prospects of the poor nations, even before the quadrupling of oil prices, were marginal at best. To all, it must be clear that for some of the poorest nations oil prices at current levels spell misery and even starvation.

A transfer of resources cannot be done by one group of countries alone. The industrial nations must continue to provide their historical levels of assistance or better. This will not be easy in face of growing concern about domestic impact of energy crisis. Our Congress has illustrated its sensitivity to this problem in its first vote on the IDA (International Development Association) replenishment. We do not mean to let that vote stand as the final word.

I say to you, quite frankly, that the vote in our House of Representatives, a couple of weeks ago, on the IDA IV replenishment was a great disappointment to us and we do not intend to let it stand! We intend to work to turn that around and to maintain the flow of development aid from the United States to the developing countries. We must meet the argument that all we are doing is paying out aid for the developing countries to flow back to the Arab countries and only support the price of oil. That is the argument used against development aid, and we think there are good arguments against it, and we intend to use them and use them aggressively. At the same time, industrial nations cannot be expected to pay for the cost of increased oil bills to LDC's. That responsibility must fall primarily on the oil producers. But the industrialized nations can and must cooperate with producers to facilitate the required flows from producers.

The United States would be pleased to join in studying concrete proposals to bring about this goal and believes the following items might usefully be included on a study agenda :

1. Assuring the oil producers play a full role as members or associate members of development organizations, including the Development Advisory Committee and regional economic institutions as well as the World Bank and the IMF. In view of their increased economic standing and the greater financial responsibility they are being asked to assume, a prompt provision of larger voting shares in the latter two institutions may be appropriate.
2. Encouraging greater participation in management and staff roles in these organizations by producer nations would also seem appropriate.
3. Expansion of the World Bank and the IMF services as agents to producer countries for loans to the LDC's. These services can include participation in conventional loans and in concessional financing. A direct contribution to, or alongside, IDA IV would be extremely helpful. Our existing institutions, as well as national governments, can also provide direct technical assistance to bilateral and regional assistance programs of producers to achieve a high level of assistance as rapidly as possible.
4. A larger producer share in planned world and regional bank borrowings.

   These institutions, instead of floating issues on the world capital markets, would offer bonds at reasonable rates to oil-producer nations.
5. A rechanneling of loans from existing oil-producer loan recipients—who now have more funds than they can absorb domestically—to the poor nations. Newly affluent countries can afford prepayment of past loans, and should be less dependent on new loans. The potential for a rechanneling of loans in these ways is substantial.
6. Beyond the redirection of planned borrowing, the World Bank already has guarantee capital sufficient to permit larger lending and larger borrowing in producers' markets. Lending from Ordinary Capital raised in this manner could be appropriate for some LDC's who can afford to pay loans at near-market rates provided the repayment terms are long.

I must stress that almost all of the above measures involve loans—not grants, near-grants, or heavily concessional terms. The poorest nations require a major direct effort to offset the devastating impact of higher oil prices. The offset must come first in the form of lower prices and then from grant aid. Industrial nations can and must be expected to contribute in historical levels of money, institutional expertise and technology to mix with Arab funds in providing the tools to help these poorest nations do the job.

This then brings me back to where I started. In a way, the problem is a large one as everyone tells each other. Cooperation is essential, as everyone tells each other, but at the same time I think we still need to keep reminding each other that cooperation, handling things with a sense of balance, financially, is not a substitute for changing the problem so that the problem is more manageable. There is no way to print up money and use it to "paper over" a real problem. We must face the real problem in its own terms and do everything we can to solve it. Thank you, Mr. Chairman.

Exhibit 62.—Statement by Deputy Secretary Simon as Administrator, Federal Energy Office, February 11, 1974, before the Washington Energy Conference

The world economy is undergoing a period of rapid change and growth. Decisions made in one country affect the patterns of life for the rest of the world. Such decisions demand not only the collective wisdom of world leadership but also a continuing spirit of cooperation among the countries of the world. By building an international framework of cooperation among nations. I am convinced that we can overcome the problems that face all of us in the energy area today, and can establish a permanent structure for worldwide economic development.

The explanation of our current problems lies in ourselves—in our own failure to acknowledge our interdependence and plan for it. There are several areas in which we have failed.

On an individual basis, we in the United States and other individual industrialized nations have misused our energy resources, and failed to gain control over the rate of growth of energy demand, largely because our shortsightedness has lulled us into believing that abundant and cheap energy supplies could continue indefinitely. Further, we have failed to develop available domestic energy resources adequately. As a group, all of the major consuming countries have failed to develop and agree upon allocation programs to meet emergency shortage situations. Further, we have failed to coordinate our national energy policies or even to adequately discuss their interrelations at a high political level. In fact, we do not have an adequate supply of information and data on world demand and supply, oil supply arrangements between consumer and producer nations, and future prospective resources in order to adopt realistic energy policies.

Because of these failures, we now find ourselves at a crossroads faced with a choice which will influence the history of future generations of the modern world. We can ignore the lessons of the past and be doomed to relive them, or we can learn from them and forge together a new atmosphere for orderly world economic growth.

As such, we must commit ourselves to work against unconstrained bilateral deals which will be counterproductive to all of our goals. In fact, we must seek to redefine bilateralism so that bilateral arrangements only occur within the umbrella of international cooperation.

Today, I would like to present to you our views on how we can do this. At a time when the energy shortage has caused a sense of paralysis that grips many people of the world, we must calmly place the issues in the proper perspective. We must ring the emotions out of our considerations of these issues, and carefully assess where we are and where we must go from here.

In order to understand the nature of the problem we now face and how we can overcome it, I think it is important to review the world energy situation, in particular with respect to production, consumption, and energy prices, as well as the impact which these factors have on balance of payments, on employment, and on the world economy.

World energy situation

Production and consumption.—First of all, let us review the world production-consumption picture. During September 1973, free world petroleum production averaged 47.8 million barrels per day.

In the subsequent months, after the outbreak of war in the Middle East, production declined as a result of intentional cutbacks by a few of the oil-producing countries bordering on the Persian Gulf. The low point in production was reached in November when free world production was estimated to be only 43.2 million barrels per day. By January 1974 production had increased to an estimated 46.2 million barrels per day, a level about 8 percent below prewar estimates of the level of January production.

Consumption in January was probably about equal to January production. There had been some drawdown in stocks of crude and petroleum products, but the cumulative reduction by the end of January is estimated to have been only on the order of magnitude of 100 million barrels.

For the calendar year 1974 as a whole it is estimated that through responsible and efficient use of existing and planned facilities the free world could produce about 51.4 million barrels per day. Whether conditions in 1974 will be such that producers will choose to produce that much and consumers will consume and add to inventories that much oil is very difficult to predict.

Prices.—In September 1973 the arm's-length open market FOB price for a new short-duration sale of a cargo of Arabian light crude was on the order of $2.12 per barrel. In November some crude sales apparently were at prices in excess of the equivalent of $15 per barrel for Arabian light. By the end of January the comparable spot market price had apparently fallen to the $10 to $11 per barrel range.

In light of continuing efforts to reduce consumption around the world, the potential clearly exists for spot market prices to continue to decline. There can be no certainty how greatly consumers—and their governments—will be inclined to reduce their consumption below the prewar forecast of about 51.4 million barrels per day in consumption plus normal inventory buildup in 1974.

A rough estimate now would be for free world 1974 consumption of about 46.4 million barrels per day if oil prices around the world average in 1974 a level consistent with an Arabian light FOB price of $8.50 per barrel. On a comparable basis estimated consumption would be on the order of 50.3 million barrels per day with an Arabian light price of $4.50 per barrel.

To these consumption estimates must be added estimates for the buildup of inventories. Companies and governments will undoubtedly wish over coming months to add to their inventories, not only to return to levels considered normal in the past, but also to provide greater security against the demonstrated insecurity of imported supplies. Ultimate objectives for inventories will probably be considerably in excess of targets to be reached by the end of 1974. A reasonable estimate of targets for yearend 1974 might be levels 5 percent above what would have been considered normal in prewar days. On that basis it can be roughly estimated that 200 million barrels will need to be added to inventories in 1974 to build up from present levels to the yearend target. That addition to inventory would increase 1974 total demand to 48.8 million barrels per day at the $8.50 price and 50.8 million barrels per day at the $4.50 price.

Spare capacity.—At either of these illustrative combinations of price and oil use in 1974 the world's forecast "normal" oil production capacity would not be fully employed during the year. Whether some oil-producing nations will choose to allow some of their normal production capacity to lie idle, with accompanying loss of revenue, is, of course, problematical. Assuming as at present, most producers wish to maintain production, relatively sharp cutbacks would be necessary by the remaining producers at the $8.50 price. For instance, if only Saudi Arabia restrained its production, then for the year Saudi production would average only 3.6 million barrels per day, only about 44 percent of its potential output.

If 1974 production restraint were borne on an equal percentage basis by Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar, then the production for each would be about 67 percent of capacity. At the $4.50 price on these assumptions, there would still be a margin of excess capacity in these countries.

Certainly at the higher of the two illustrative price levels, and quite possibly at the lower level as well, production in other oil countries would grow faster than world demand over the years after 1974, so that the relative production restraint would need to be increased over time to maintain those prices.

Balance of payments impacts.—The impact of such higher costs of imported oil will be severe upon the economies of many oil-consuming nations. The increased costs in 1974 for the less developed nations alone would be on the order of $9 billion at the $8.50 price and approaching $5 billion at the $4.50 price. As a consequence of these changes in oil payments, the projected 1974 current account deficit for the LDC's would be estimated at about $22 billion at the $8.50 price and on the order of $18 billion at the $4.50 price.

The incidence of the higher oil prices among individual LDC's will vary widely. Some of the hardest hit countries such as India, Bangladesh, and the drought-ridden regions of western Africa not only face a significant increase in their import bill but their low per capita incomes and slow rates of growth of output and of exports will make it difficult to finance anything approaching the same volume of imports as in 1973. Other countries—such as Brazil, Korea, Taiwan, and Turkey—while facing a significant increase in their import bill will have a greater capacity to finance increased oil payments in the short run with their relatively high level of reserves.

Employment and inflation.—These large increases in payments will worsen both the employment and inflation situation in oil-importing countries. Even after adjustment in monetary and fiscal policies, these increased import bills will have a deflationary impact on demand for domestic production, as purchasing power is diverted from domestically produced goods and services in order to meet increased oil import payments.

At the same time that demand for domestic production is being decreased, cost-push inflationary pressures will be increased as a result of the direct impact of oil price rises on price indexes and possibly also as a result of intensified labor pressures attempting to secure a wage increase sufficient to offset the decrease in the standard of living implied by the increased price of oil.

There is also likely to be a temporary increase in unemployment and decline in output as patterns of consumption and production are readjusted to the levels of energy costs. Particularly hard hit will be such products as automobiles, plastics, fertilizers, and boating and camping equipment.

It is estimated that for a number of the large industrial countries these factors, even after appropriate adjustments in fiscal and monetary policies, could combine to reduce rates of real economic growth by 1 to 1½ percent during 1974, if an $8.50 level of prices prevailed. There could be 2 to 3 percent additional upward pressure on prices in many countries. At a $4.50 level of prices these impacts would be considerably less.

The economic impact of higher oil prices.—In general, then, projections of the economic impact for 1974 of higher price levels for oil indicate that oil-consuming nations will experience lower rates of growth, higher rates of inflation, higher levels of unemployment, lower levels of real income, and notably less favorable trade balances than previously anticipated. The economic impact of higher oil prices will vary widely among countries reflecting not only differing degrees of dependence on imported oil, but also differing degrees of financial strength and economic adaptability. All industrial nations, with the possible exception of Canada, could experience serious economic difficulties, as will many LDC's. For LDC's with inadequate reserves, low per capita incomes, and slow rates of output and export growth, the economic impact of higher oil prices could be extremely severe.

For the developed countries—which in recent years have typically run current account surpluses in the order of $10 billion per year—the increased oil costs at the $8.50 per barrel price would mean a current account deficit of more than $30 billion. At the $4.50 price, the deficit for the developed countries would still be in the range of 5 to 10 billion dollars. For the OPEC producers, even after taking into account an assumed increase in their imports, an $8.50 price would yield a current account surplus in the order of $55 billion. The $4.50 price would still yield a surplus in excess of the $20 billion range. The corresponding increases during 1974 in the foreign asset holdings of the producing countries, while large, will still be equal to only a small fraction of the assets traded in the financial markets of the OECD countries.

The incidence among the developed countries is relatively evenly spread, with projections of increased oil payments as a percent of total imports falling in the range of 10 to 20 percent for most countries. Japan will be particularly hard hit with a projected increase in oil payments approaching one-third of total 1973 imports. Canada, on the other hand, with oil exports of roughly the same magnitude as imports, should feel virtually no net balance of payments impact from the changes.

Project Independence

At this point, I think it is important to carefully assess these projections of energy production, consumption, and prices and recognize that they are flashing warning signals to which we must respond. We must realize that these projections 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 continue largely unchanged. Together, we can prevent this from happening.

The projections do show—clearly and vividly—that we face far-reaching changes in our energy balances. We must accept 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 the years immediately ahead.

But, there is another side. These projections show us what needs to be done. If we approach it bilaterally, a potential crisis will become a reality. However, if we make the commitment to join together, a potential crisis may be translated into a real opportunity. In essence, the energy problem is the most infinitely solvable one we have—but we must approach it together. Action by consuming countries, with a long view of their best interest, is required now.

We, in the United States—in our actions and in our planning—are participating in this process with the greatest sense of urgency.

In November 1973, the President of the United States inaugurated "Project Independence," designed to ensure an expansion in domestic energy production so that our Nation would no longer be subject to economic disruption, or the threat of such disruption, from a sudden curtailment of vital energy supplies.

Project Independence is designed—

(1) To conserve energy—to establish a new energy ethic that will greatly reduce our growing demand for energy;

(2) To increase production of all forms of energy in the United States; and

(3) To meet our energy needs at the lowest cost consistent with the protection of both national security and environment.

As we begin this conference, we must not view Project Independence as a move toward autarchy but rather we must see it as part of a worldwide effort to bring greater balance to world energy supply and demand. Our current energy problems magnify the fact that we live in an interdependent world. We in the United States view Project Independence as a means for us to reduce our call on oil available to the international market. Moreover, it is our way to become exporters of energy by 1985. Seen in this way, this effort will be our contribution to the rest of the world. Let us now look carefully at Project Independence and relate this initiative to what we all can and must do together.

The first major thrust of U.S. energy policy is to eliminate waste and conserve energy resources. The United States is the largest energy consumer, using one-third of the world's energy. Our pattern of energy consumption has in part resulted from the relatively low cost of energy in the past. As prices rise, normal market forces will result in a reduction in demand. The problem, however, is that we cannot wait for these forces to operate. We must force adoption of energy conservation and demand curtailment as an individual and collective ethic now. In turn, efficient energy utilization will become a national "way of life" and not simply a temporary expedient to be followed during this period of acute shortage.

Our objectives are to eliminate waste, husband our scarce resources, and extend the available supplies to insure that essential needs are fully met. In this way a "less is better" ethic can cushion the impact of energy shortfalls on the economy and yield an improved quality of life. This means less weight and horsepower in our automobiles; less speed on our highways; less heat and heat loss in our homes; less empty seats on our planes, trains, and buses; less waste in our industrial processes and powerplants; less throwaway containers. All of these will enhance rather than detract from our economic well-being and living standard.

With such a program, our goal is to cut our annual growth rate in energy consumption from the present 4 to 5 percent down to 2 or 3 percent by 1980. If we can do this, our estimates show that we could save as much as 7 million barrels of oil per day. Although much of the expected 7 million barrels per day saving can result from adherence with current conservation policies, there is considerable research we plan to do which is aimed at permanently reducing consumption of energy. For example, better insulation of houses, more efficient automobile engines, and more efficient power cycles can save energy without causing economic or social dislocation. Thus, our research program will concentrate on these areas.

The second major thrust of Project Independence is to stimulate the development and production of domestic energy resources and to develop alternative new energy sources. Specifically, our program will include the following:

Developing our coal reserves more effectively. We have 1 trillion, 500 billion tons of identifiable coal reserves, or half of the non-Communist world's reserves, 425 billion tons of which are economically recoverable now. We must develop ways to utilize this abundant resource. We must mount major research and development efforts in gasification and liquefaction of coal. Further, we must develop techniques for mining surface coal that do not destroy the landscape permanently. We must also develop ways to deep-mine coal that protect the health and safety of miners.

We have talked for years about the production of oil from our oil shale. There are an estimated 1 trillion, 800 billion barrels of oil in the shale resources in the United States, and just those reserves that we presently know are exploitable could satisfy our needs for oil for over 100 years. We need an increased effort by both the Federal Government and private industry to develop this potentially productive resource. I am especially encouraged by recent progress in the in situ processes for extracting shale oil. This process suggests that it may be possible to produce shale oil at much less than the current cost of Persian Gulf crude. In situ extraction should also have minimal impact on the environment and its development must be expedited.

We also have to push forward in the development and utilization of nuclear power. Currently, nuclear power provides only 1 percent of our energy needs after 30 years of development. It could easily provide 10 percent by 1985. We will take every step to expedite the licensing and construction of nuclear powerplants, which are an essential part of our program for achieving energy self-sufficiency. We will also develop a broad nuclear program which looks toward liquid metal and other breeder reactors. In addition, top priority will continue to be given to assuring that nuclear powerplants are built and operated safely with acceptable environmental impact.

We have also talked for years about the development of such relatively distant alternatives to fossil fuels as fusion, geothermal, and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth, and they could not come into widespread use until after 1990. Nevertheless, although we will invest in the development of these alternatives, at the same time we must focus now on nearer term measures for expanding energy supplies.

With this overall approach in mind, let us examine in more detail now the specifics of Project Independence.

We have tried to visualize our policy in terms of what must be done in the relatively short range—up to the mid-1980's, and what must be done in the long term—beyond the 1980's. The strategies appropriate for dealing with the short range are in general not the same as those appropriate for the long range, and so I will discuss them separately.

Short range.—In the short range our efforts must be toward development of the existing state of the art and in addition to our conservation efforts, our underlying strategy will be—

(1) To increase our domestic supply of gas and oil, including development of the Outer Continental Shelf, our resources in Alaska as well as our large gas reserves.

(2) To supplement this development of oil and gas with expanded use of alternative energy, mainly coal and nuclear power and oil shale.

Research can make some contribution toward implementing these short-range strategies, but the real rewards from research will come in the next decade. Our progress between now and 1980 will depend, for the most part, on our ability to implement existing technology rather than on the results of new research.

1. Increase domestic supply of gas and oil

To increase our domestic supply of gas and oil involves both the application of existing technology and the creation of new technology. Application of existing technology would include such techniques as secondary and tertiary recovery from existing oilfields and greatly expanded exploration for new oil and gas reservoirs, particularly on the Outer Continental Shelf.

The undiscovered oil and gas on Federal lands and beneath our Outer Continental Shelf can provide a significant portion of the energy necessary to make us self-sufficient. The total U.S. offshore lands, including the Outer Continental Shelf, are estimated to contain 42 percent (160 billion barrels of oil equivalent) of the remaining discoverable oil and gas reserves in the United States.

We are now increasing the acreage leased on the Outer Continental Shelf to 10 million acres beginning in 1975, more than tenfold what had been planned 2 years ago. In later years, the amount of acreage to be leased will be based on market needs and on industry's record of performance in exploring and developing leases.

In addition to the Outer Continental Shelf program, we will move rapidly to exploit our resources in Alaska. The Alaskan pipeline, when completed, will result in more than 2 million barrels of oil a day by 1980. This is equal to one-third of current U.S. oil imports. As important, approval of the Alaskan pipeline will encourage additional development of Alaskan fields. Projections indicate that the North Slope has potential reserves of as much as 80 billion barrels. Thus, eventually, we could achieve an Alaska production of between 5 and 6 million barrels a day.

Further, it has long been clear that while an Alaskan oil pipeline was needed, it alone will not be enough. In addition to the huge oil reserves in the North Slope of Alaska, there are also gas reserves there of at least 26 trillion cubic feet—enough to heat 10 million homes for 20 years. We are now working to determine the need for future Alaska oil and gas pipeline capacity including the best routes.

2. Supplement oil and gas through development of coal and nuclear energy

In addition to these increased efforts in the oil and gas areas, we will move to develop coal and nuclear energy as alternatives. We can identify two separate approaches—direct substitution and coal conversion.

a. Direct use of coal for oil and gas in industrial and utility applications

Substitution requires research since the main problem in burning coal is the environmental impact. We have a large program devoted to stack gas cleanup and there is every reason to expect this program will be successful, thus allowing us to substitute coal for a substantial amount of the oil and gas we now burn. Some have estimated that by 1985 we might save as much as 6 million barrels per day through direct substitution—2 million barrels per day through direct replacement of oil under utility boilers, 1 million barrels per day in residential and commercial space heating (primarily through heat pumps), and 3 million barrels per day in industrial processes.

b. Conversion of coal into liquids and gases

Techniques for liquifying and gasifying coal are fairly well known. However, in general these methods are expensive and will require further development before they become commercially feasible. We are undertaking a crash program now and we estimate that we might be able to replace as much as 3 million barrels per day of oil with synthetic fuels made from coal.

We thus visualize coal emerging as a very central element in our energy picture by 1985. There are some estimates that suggest that by then we shall have to mine as much as 1500 or even 1800 million tons of coal per year. This represents a tripling of our coal production.

c. Expanding the use of nuclear energy—

Requires research on nuclear safety, waste disposal, siting of nuclear reactors, and thorium systems, as well as providing additional separative work capacity. Siting is also an important element of our nuclear strategy since, in the absence of a rational siting policy for nuclear reactors, the nuclear option may be jeopardized.

Long range.—All of these developments can take place in a relatively short-range time frame. Long range our goal is to gradually transform the base of our energy system from the nonrenewable fossil fuels to nonfossil fuels, mainly nuclear, geothermal, and solar.

To accomplish this, we have provided substantial funds for energy research and development. Last June the President announced a $10 billion Federal program over the next 5 years, but he stressed that we would spend whatever additional sums that could reasonably be spent to accomplish our task. Last month, the President announced that in fiscal year 1975—the first year of the 5-year energy R&D program—total Federal commitment to direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago.

Our research will retain as much flexibility as possible. In the coal area, the challenge is to learn how to transform our different types of coal through a variety of processes into acceptable gaseous and liquid fuels suitable as substitutes and replacements for dwindling supplies of petroleum and gas. Thus, low-BTU gas, which is probably marginal in the short range, looms with high priority in the long range. And perfection of processes for coal hydrogenation leading to production of syncrude and syngas will be supported to the limit of scientific creativity.

Finally, nuclear energy holds the most importance for the long range, primarily because it gives mankind an essentially inexhaustible energy source, one that is relatively independent of mineral resource costs. At the present time the breeder reactor is the only nuclear technology that can be counted upon today to achieve the nuclear promise. Thus, research and development on other breeder reactor concepts (light water breeder, gas-cooled fast breeder, and molten salt breeder) will be supported and expanded to retain them as viable alternatives.

The need for a world response

All of this is, however, really only a part of Project Independence—it is our part. What we need now is to transform a U.S. commitment into a world response. What can we do together? As major consuming countries, we share the common problem of being dependent upon oil imports and of being concerned about the impact of rising costs of such imports. If we join together, however, we can reduce our dependence upon one set of suppliers and stabilize the price that we pay for our oil. Here is what we can do:

1. Development of new energy sources

The first thing that we should consider are ways in which, cooperatively, we can develop alternative energy supplies. I have already described to you what we, in the United States, are doing. We must commence discussing immediately on a program for cooperation in such fields as nuclear technology, coal extraction, liquefication and gasification, production of oil from shale and tar sands, development of solar and geothermal energy, and other fields. This program should explore the potential for sharing information, patents, and technical information. We should use this conference as the first step toward developing a program for doing this. Together, we can achieve more rapid development of alternative energy sources for each one of our countries. For instance:

a. Nuclear energy

We are rapidly reaching the stage where we could be mass-producing floating nuclear powerplants. Such powerplants can be produced in quantity and floated to locations throughout the world to produce power rapidly. This is not a long-range concept but something which could be initiated immediately. The technology, ideas, and production facilities of many nations can be combined in developing these plants. The technology of breeder reactors, for instance, appears to be more advanced in France and Britain since they are constructing prototype breeder reactor powered generating stations. Germany, Italy, and Japan have undertaken ambitious reactor development programs. All would benefit from an exchange of information. Certainly all countries should have a vital interest in pooling technical information which concerns the safety and environmental impact of reactor operation.

b. Hydrocarbons

In addition, we should work together to encourage development of these relatively untapped but enormous sources of hydrocarbons: U.S. oil shale and the tar sands of Canada and Venezuela. All together, these three sources alone provide an enormous potential for recoverable oil. It is possible that by pooling our technical resources we can produce new energy from these three relatively untapped sources beginning in 1980.

c. Coal

Development of newer and better processes for coal conversion are in progress in a number of countries, especially in West Germany, England, and France. We all could benefit from this technology and we should explore how we can pool our thinking and technology in this area as well as participate in joint cooperative programs.

2. Conservation

In addition to these joint efforts to develop energy supplies, we must work together to curb the explosive growth of energy demand. Conservation efforts and sacrifices must be shared equitably by all of us. We must pledge ourselves to a new world conservation ethic—to the adoption of parallel vigorous programs to conserve energy and promote its more efficient use. What I urge is that energy consumption in one country not simply be governed by the ability to obtain additional supplies, at the cost to other consumer countries. Rather, there must be a basic commitment to share internationally available supplies at a reasonable level of consumption for all.

3. World energy data bank

Finally, energy policy can only be adequately formulated if sufficient accurate data is available to each country. We must develop a world energy data bank and information-sharing arrangement to enable individual nations to set sound policy as well as full coordination of world energy policy. This would serve as a repository for public data now available but scattered, and serve as a focal point for efforts to coordinate our respective national energy policies and adhere to a new code of market conduct.

Conclusion

In closing, let us use this conference as the touchstone for a future of increased cooperation. Let us work toward an open system in which all those capable of finding, developing, and marketing energy resources can have an opportunity to do so. Nationalization without prompt adequate and effective compensation by producing nations or unconstrained bilateral deals between producing and consuming governments will be counterproductive to all. Such bilateral arrangements will result in divisive competition which will inevitably work to the detriment of each individual buyer as well as the entire world.

We are facing a dramatically changing situation in the world energy scene. The present unstable situation is not in the long-term interest of current oil exporters, although the short-term flow of wealth and political power may make it hard for them to see the long-term disadvantages. The world is reacting to high prices by reducing demand and will develop alternate sources of energy which in turn will lead to lower prices in the world market. Moreover, the shortrun actions of the oil exporters have made oil in the ground a relatively poor investment because its value will fall over the next decade. For example, using an 8-percent rate of return and a price of $10 per barrel in 1974, the price of a barrel of oil would have to rise to $21.59 by 1984 to produce the same rate of return. The present price levels present grave potential problems for all consuming nations. The oil-producing nations cannot benefit from price levels which result in unemployment and inflation in Europe and Japan, and damage to the world economy as a whole. It is clearly in the best interests of the oil producers that the world economy maintain sound growth.

In the near term prices lower than those being charged at present would be in the economic interest of both producers and consumers, particularly if consumers had confidence in the stability of supply. High-cost alternative sources would not then be encouraged to so great an extent, and producers could expect continued gradual increases in their national incomes as their economies developed the capacity to absorb increasing imports of capital and technology. Consumers now suffer from the effects of the sharp and sudden upswing in prices. Producers are likely to suffer at some later time from the downswing in prices caused by the market's strong reactions to present high prices.

Ideally, what is needed is a diversity of consumers and producers operating in a cooperative international framework. Recently, we have seen some hopeful signs that oil producers are also interested in adjusting oil prices to assure a stable world economy. We should work cooperatively to see that this is done.

Together, we can prevent unemployment. Together, we can prevent a worldwide monetary crisis. Together, we can maintain economic progress.

I believe there is reason for optimism. We have the capacity and resources to meet our energy needs, and the United States stands ready and willing to help build a structure of international cooperation with producers and consumers alike.

Exhibit 63.—Communique of the Washington Energy Conference, February 13, 1974

1. Foreign Ministers of Belgium, Canada, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, the United Kingdom, the United States met in Washington from February 11 to 13, 1974. The European Community was represented as such by the President of the Council and the President of the Commission. Finance Ministers, Ministers with responsibility for Energy Affairs, Economic Affairs, and Science and Technology Affairs also took part in the meeting. The Secretary General of the OECD also participated in the meeting. The Ministers examined the international energy situation and its implications and charted a course of actions to meet this challenge which requires constructive and comprehensive solutions. To this end they agreed on specific steps to provide for effective international cooperation. The Ministers affirmed that solutions to the world's energy problem should be sought in consultation with producer countries and other consumers.

Analysis of the situation

2. They noted that during the past three decades progress in improving productivity and standards of living was greatly facilitated by the ready availability of increasing supplies of energy at fairly stable prices. They recognized that the problem of meeting growing demand existed before the current situation and that the needs of the world economy for increased energy supplies require positive long-term solutions.

3. They concluded that the current energy situation results from an intensification of these underlying factors and from political developments.

4. They reviewed the problems created by the large rise in oil prices and agreed with the serious concern expressed by the International Monetary Fund's Committee of Twenty at its recent Rome meeting over the abrupt and significant changes in prospect for the world balance of payments structure.

5. They agreed that present petroleum prices presented the structure of world trade and finance with an unprecedented situation. They recognized that none of the consuming countries could hope to insulate itself from these developments, or expect to deal with the payments impact of oil prices by the adoption of monetary or trade measures alone. In their view, the present situation, if continued, could lead to a serious deterioration in income and employment, intensify inflationary pressures, and endanger the welfare of nations. They believed that financial measures by themselves will not be able to deal with the strains of the current situation.

6. They expressed their particular concern about the consequences of the situation for the developing countries and recognized the need for efforts by the entire international community to resolve this problem. At current oil prices the additional energy costs for developing countries will cause a serious setback to the prospect for economic development of these countries.

General conclusions

7. They affirmed, that, in the pursuit of national policies, whether in the trade, monetary, or energy fields, efforts should be made to harmonize the interests of each country on the one hand and the maintenance of the world economic system on the other. Concerted international cooperation between all the countries concerned including oil producing countries could help to accelerate an improvement in the supply and demand situation, ameliorate the adverse economic consequences of the existing situation, and lay the groundwork for a more equitable and stable international energy relationship.

8. They felt that these considerations taken as a whole made it essential that there should be a substantial increase of international cooperation in all fields. Each participant in the Conference stated its firm intention to do its utmost to contribute to such an aim, in close cooperation both with the other consumer countries and with the producer countries.

9. They concurred in the need for a comprehensive action program to deal with all facets of the world energy situation by cooperative measures. In so doing they will build on the work of the OECD. They recognized that they may wish to invite, as appropriate, other countries to join with them in these efforts. Such an action program of international cooperation would include, as appropriate, the sharing of means and efforts, while concerting national policies, in such areas as—

The conservation of energy and restraint of demand.

A system of allocating oil supplies in times of emergency and severe shortages.

The acceleration of development of additional energy sources so as to diversify energy supplies.

The acceleration of energy research and development programs through international cooperative efforts.[1]

10. With respect to monetary and economic questions, they decided to intensify their cooperation and to give impetus to the work being undertaken in the IMF, the World Bank and the OECD on the economic and monetary consequences of the current energy situation, in particular to deal with balance of payments disequilibria. They agreed that—[2]

In dealing with the balance of payments impact of oil prices they stressed the importance of avoiding competitive depreciation and the escalation

[1] France does not accept point 9.
[2] In point 10, France does not accept paragraphs cited with asterisks.

of restrictions on trade and payments or disruptive actions in external borrowing.*

While financial cooperation can only partially alleviate the problems which have recently arisen for the international economic system, they will intensify work on short-term financial measures and possible longer-term mechanisms to reinforce existing official and market credit facilities.*

They will pursue domestic economic policies which will reduce as much as possible the difficulties resulting from the current energy cost levels.*

They will make strenuous efforts to maintain and enlarge the flow of development aid bilaterally and through multilateral institutions, on the basis of international solidarity embracing all countries with appropriate resources.

11. Further, they have agreed to accelerate wherever practicable their own national programs of new energy sources and technology which will help the overall world-wide supply and demand situation.

12. They agreed to examine in detail the role of international oil companies.

13. They stressed the continued importance of maintaining and improving the natural environment as part of developing energy sources and agreed to make this an important goal of their activity.

14. They further agreed that there was need to develop a cooperative multilateral relationship with producing countries, and other consuming countries that takes into account the long-term interests of all. They are ready to exchange technical information with these countries on the problem of stabilizing energy supplies with regard to quantity and prices.

15. They welcomed the initiatives in the United Nations to deal with the larger issues of energy and primary products at a world-wide level and in particular for a special session of the U.N. General Assembly.

Establishment of follow-on machinery

16. They agreed to establish a coordinating group headed by senior officials to direct and to coordinate the development of the actions referred to above. The coordinating group shall decide how best to organize its work. It should—

Monitor and give focus to the tasks that might be addressed in existing organizations;

Establish such ad hoc working groups as may be necessary to undertake tasks for which there are presently no suitable bodies;

Direct preparations of a conference of consumer and producer countries which will be held at the earliest possible opportunity and which, if necessary, will be preceded by a further meeting of consumer countries.[3]

17. They agreed that the preparations for such meetings should involve consultations with developing countries and other consumer and producer countries.[3]

Exhibit 64.—Statement by Under Secretary for Monetary Affairs Volcker, February 27, 1974, before the 37th Annual World Trade Conference, Chicago, Ill., on the "International Economic Outlook"

As much as I liked the idea of addressing this audience, I must admit to having some misgivings about the invitation. As I looked over the Conference agenda, I was struck by the expertise and erudition brought by others to the program. Then—taking account of the enormity of the problems we face and the healthy skepticism in these environs about the competence of bureaucrats who have spent too much time in Washington—it occurred to me I may have been invited more to listen than to speak.

At any rate, I want to stick today to some relatively simple points concerning the international economic scene—without pretending that solutions to the problems we face are equally simple. I don't want to be left in the position of the fellow who talked a blue streak to a friend when he suddenly stopped and said, "Well, I won't bore you with any more details. The fact is, I've already told you more than I know."

I don't have to remind you, who are on the frontline in the international economic world, that we have been through a turbulent time the past several years.

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*See footnote 2 on p. 570.

[3] France does not accept points 16 and 17.

Our chronic balance of payments problems were climaxed by our first trade deficits in this century. Under that pressure, we needed to seek more realistic currency alignments, and, given the importance of the dollar in the scheme of things, this brought to a head what was necessary anyway: a thoroughgoing "new look" at the international monetary system.

However necessary, the process of achieving a new exchange rate pattern was psychologically disturbing. Many were surprised when business, in a period of boom, adjusted to the present transitional regime of floating exchange rates with remarkable facility. But it is safe to say nearly everyone would be happier with more stability in exchange rates than in the past year!

Meanwhile, essential support for the liberal trading practices built up since World War II seemed to be eroding here and elsewhere—so far as the United States was concerned, in part because of the competitive pressures related to an overvalued dollar prior to 1971. More recent events—spotlighted by, but not confined to, the oil situation—emphasize that the traditional concern about fair access to foreign markets needs to be accompanied by concern over access to foreign supplies. The combination of a worldwide economic boom with bad harvests and manmade supply bottlenecks has been reflected in world shortages of raw materials.

Just when we seemed to be moving through the worst of some of these problems—with both financial markets and commodity markets settling down—the Middle East fighting suddenly brought front and center an energy problem that had been brewing for several years. Problems associated with trade patterns, balance of payments trends, monetary and trade negotiations all suddenly took on new—and not fully known—dimensions.

Obviously, we are in a stage of rapid change, of transition. And one characteristic of rapid change is uncertainty. Some of the old moorings, for better or for worse, have been lost. In midstream on monetary negotiations, in the preliminary phases of trade negotiations, and still organizing means of dealing with the energy problem on an international level, we have hard work to do before new moorings are firmly established.

The common strand in all these efforts is that they require for real success a common effort and a common approach among nations—in other words, international cooperation.

Now, cooperation is one of those nice words in the international jargon. In my line of business, I must have heard hundreds of toasts—including a few I have delivered myself—to monetary cooperation in the past 5 years. As enlightened men, we are quick to see the prosperity and development of each nation interwoven with the well-being of the rest of the world.

But the first point I would make is that cooperation depends on much more than toasts, and on more than recognition of broad principles, however valid. Cooperation must be practiced, and it must be a two-way street. It requires a long view of the national interest, and sometimes poses hard questions in the short run.

With considerable justice, it's easy for an American to have a complacent feeling about our contributions to cooperation. After all, didn't we do our part in reconstruction and aid after World War II? To take a current example, aren't we the ones that called an Energy Conference and pushed it through despite some suspicion and concern? Certainly I know from the most intimate, personal experience that our monetary initiatives have been motivated by pure hearts and dispassionate judgment! I am sure our trade negotiators would claim no less—we never look for more than a fair advantage!

But a moment ago I differentiated between the principle and the practice. And we need to recognize that the practice of cooperation requires continuing hard decisions. And those decisions in turn must rest on a broad stratum of public understanding and consensus.

For instance, the higher oil prices will pose large problems for all consuming nations, whatever their stage of economic development. But for a group of poor countries with large populations at subsistence levels and little or no borrowing capacity, the problems are particularly excruciating. Not only can higher costs for oil threaten bankruptcy, but there is an ominous chain leading to shortages of fertilizer, to short crops, and potential starvation. We and others have pointed out that producing countries with enormous new revenues have a particular responsibility to deal with these new problems. Obviously, drawing these countries in a large way into the business of providing aid would, viewed in a world perspective, be an act of constructive cooperation.

At the same time, it is apparent to me full cooperation from producer countries in meeting the added burden on the poorest countries cannot substitute for our own efforts and those of other relatively rich industrial countries, which have been carried on over a long period of years. Yet, just a few days before the Energy Conference, while we were calling for world cooperation, the House of Representatives voted down a $1.5 billion U.S. contribution spread over 3 years to the World Bank's International Development Association, which provides "soft loans" to the neediest nations for projects sorely needed by the poorest people in the world: projects like irrigation, education, and public health. If that vote were to represent the last word of the Congress—if we were to appear to turn our backs on those most in need—the repercussions would be widespread.

It was the United States that 15 years ago proposed the establishment of this soft-loan facility so that countries too poor to borrow on conventional terms would not be stymied in their desire for progress. In earlier years, our contribution amounted to 40 percent or more of the total subscriptions. Last fall in Nairobi, after hard negotiation, we reached agreement with other donor countries that our portion of the next replenishment of funds would be reduced to one-third. That change fully recognizes the increased wealth and financial capacity of other donors. I should note, in that connection, that the United States still accounts for over 40 percent of the gross national product of industrialized countries.

We are in full agreement with the broad goals of IDA to attack directly the problem of absolute poverty among the poorest people in the world. It is generally agreed that the lending procedures and standards of IDA are well tested and effective. It is a mutual venture, in which one nation's contribution is dependent on another's. In our direct self-interest, we have an enormous stake in the stability and growth of developing countries that we must increasingly look to as a source of raw materials.

Are we to turn our backs and run? I am sensitive to our budget problems and our balance of payments problems. They are certainly important elements in congressional concern—as they concerned us in our negotiations with other countries. But I am convinced that the contribution involved—we have the option of paying either $375 million a year for 4 years or $500 million for 3 years—is supportable in a $300 billion budget.

Can we expect others to work with us in a cooperative spirit on money, trade, and oil if we blithely shuck off our responsibilities in this area to a world order?

These are the reasons the House vote was so disturbing to us; and why it should not be permitted to stand, unchallenged. As we approach this matter again in the Senate and the House, we should recognize the issue for what it is: a test of our own willingness—in our long-term self-interest—to maintain in place a building block in world cooperation.

Other tests of our will to work with others will arise. For instance, as oil producers become richer—as they hopefully face up to their own responsibilities for aid—we must be willing to provide opportunities for them to assume a larger role and voice in our international financial institutions.

If we urge upon them the need to act as responsible suppliers of a crucial raw material, we must continue to recognize our responsibility as suppliers to the world of commodities at least as vital—feed and food grains.

The fact is that we can take considerable pride in our performance as the world's breadbasket. It has not been cost free—the strain shows at the supermarket counter and the Chicago wheat pits. With normal weather, we should be through the worst of it in a matter of months as new bumper crops come in. Certainly, we need to think hard about the lessons of recent food shortages as we plan ahead, and enter into negotiations with our trading partners.

Precisely which negotiating approaches will be most successful is not immediately apparent, but about the principle underlying them there can be little doubt: those who produce must accept the responsibility of not arbitrarily closing markets to those dependent upon them even if it causes some short-term pain. For those who consume, hoarding foodstuffs when there is great need elsewhere, for example, is no more an acceptable principle of international commerce than is price gouging or unwarranted export control.

This situation respecting access to supply is not basically different from the traditional concern about access to markets. One can't expect to sell to another market without being willing to concede access to his own.

At a time of sudden change and turmoil—with national leaders forced to deal with domestic repercussions on a daily basis—there is always the danger that these underlying truths are forgotten—that some will seek relief at the potential expense of their trading partners, and the progress of decades unraveled. This is the reason Secretary Shultz suggested, at the energy meeting, that the major countries add force to their expressed concern over "beggar-my-neighbor" policies by more specifically pledging that they would forego trade restrictive measures for balance of payments purposes during this period of uncertainty, and that we examine new international procedures, perhaps in the IMF, to help enforce this intent.

You are aware the financial repercussions of the oil situation pose formidable new problems of their own which will challenge our capacity to cooperate. In the circumstances, I believe we are fortunate that we can operate in the context of some flexibility of exchange rates. But floating rates are by themselves no panacea; without established codes of conduct, they are at least as subject to predatory practices as other systems.

So far, I see no evidence that floating rates have been used for that purpose. What everyone does see is huge new deficits in the current accounts of almost all countries, developed and developing alike. A handful of oil producers will, in contrast, have tens of billions to invest. In logic, those investments will flow back to the consuming countries, offsetting their current deficits. But no logic tells us to what country, when.

I want to emphasize two points in this connection. No purely financial arrangements can hope to deal with the problem of lack of energy supply or excessive prices. But given progress in these areas, I do believe that our financial institutions, private and public, are capable of evolving rapidly to the point they can handle very large new flows of international investment, channeling the funds relatively smoothly to the points of maximum need.

But that optimistic view rests upon another, to me absolutely crucial, assumption. In a world of accelerating inflation, international financial stability can only be a dream. More than that, inflation strikes at the entire fabric of cooperation internationally, even as it generates tensions at home.

For too long, many here and abroad have had the attitude inflation is something with which we can live. Others, however unhappily, are beginning to feel they must reconcile themselves to it.

Well, I am not here to lecture you. I simply want to say I don't believe it.

Sooner or later, in a society like that of the United States, the strain and tensions associated with inflation of present dimensions will be intolerable economically, financially, and socially. The question is how and when it will be brought to an end.

I believe after midyear, with new crops available, with adjustments in oil prices digested, with a tempering of the earlier boom in world economic conditions, we have a good chance to see the tide begin to turn. Responsible financial policies now can help set the stage.

No larger challenge lies before us than to seize that chance. We can make no larger contribution to the kind of world economic order toward which we are working.

Exhibit 65.—Statement by Deputy Assistant Secretary Cross, March 7. 1974, before the Subcommittee on Foreign Commerce and Tourism of the Senate Committee on Commerce, on S. 2840, proposing a study of foreign direct and portfolio investment in the United States

It is a pleasure to appear before you to testify on S. 2840, proposing a study of foreign direct and portfolio investment in the United States. My remarks will be directed toward those aspects of the proposed study which are of most direct concern to the Treasury Department.

You heard earlier a statement from the Deputy Director of the Council on International Economic Policy reaffirming the United States open and nondiscriminatory attitude toward foreign investment. A two-way flow of investment between the United States and other nations can benefit both parties, and continued U.S. hospitality toward foreign investment can be particularly important in a period of uncertainty and of temptation for nations to take restrictive actions affecting both investment and trade.

U.S. policy toward international investment stresses reliance on market forces in the world economy and a desire to minimize restrictions. The interest equalization tax, the Federal Reserve voluntary foreign credit restraint program, and the Commerce Department controls on U.S. direct investment abroad represented deviations from that philosophy during a period of particular difficulty in international payments. We were pleased to be able to terminate these restraints in January. Removal of investment restrictions, by ourselves and by other nations, can be especially helpful at the present time in facilitating the ability of markets to deal with some of the financial strains which may result from recent sharp increases in oil prices.

The need for better data on foreign investment

The Treasury Department supports steps to improve our factual knowledge of the nature, extent, and effects of investment flows. We are therefore in full agreement with the aim of developing better data about foreign investments in the United States, as proposed in S. 2840.

We believe that the study envisaged should be conducted in a manner which will avoid any impression that the ultimate objective might be to restrict the access of foreign capital to the U.S. market. We want foreign investors to continue to expect that the United States will in future years welcome their investments. In our view, it would be a great mistake to restrict the access of foreign investors to the United States. We would welcome a comprehensive study of foreign investment here and believe that it will confirm the view that such investment brings substantial benefits to our economy. We think it would be best to focus our attention initially on improving our statistical information, as an essential first step before determining the kind of analytical work which is needed.

The Commerce Department representative is covering the issues concerning an improved direct investment data base. I will address myself to questions about our portfolio investment data. The borderline between these two types of investment is somewhat arbitrary and is currently under review. At present, foreign investment in the United States is considered "direct investment" when foreign equity ownership in a U.S. enterprise amounts to 25 percent or more of the voting participation.

Statistics on current flows

The Treasury Department at present collects a considerable amount of information on current flows of portfolio capital. I would like to give a brief description of this reporting system.

Information is collected on a regular basis on transactions with foreigners in both U.S. and foreign long-term securities. The information is obtained through a monthly report, Treasury Foreign Exchange Form S–1, which is filed by U.S. brokers, dealers, and banks, covering transactions both for their own account and for the account of their customers. In addition, other U.S. business firms report when they deal directly with foreigners in buying or selling securities. The data are collected for the Treasury by the Federal Reserve banks.

These reports classify foreign purchases and sales of long-term securities by type, for example, stocks and bonds. The data also show the country of the foreign purchaser or seller, on the basis of the records of the reporting firm. Summaries of the data are reported monthly in the Treasury Bulletin.

These reports form part of a broader Treasury statistical system for gathering information on all private capital transactions with foreigners other than direct investments. The broader system is used to calculate private capital transactions accounts in the U.S. balance of payments.

Inadequacies of the existing data base

We believe the system of data collection has worked reasonably well in recording current transactions representing flows in the form of purchases and sales of U.S. securities by foreigners in the established securities markets. The proposed study would give us a useful opportunity to review this system for possible improvement. But, more importantly, data on the stock, or market value of the aggregate of such securities held in foreign hands, are deficient. These values are calculated by periodic estimates updating a benchmark study undertaken in 1949, which in turn followed a more comprehensive census in 1941. At the time of the 1949 study the market value of total foreign holdings of U.S. securities was calculated at $2.4 billion. By the time of the latest estimate at the end of 1972, the value was shown at $38.6 billion. This latter estimate may be subject to a large margin of error in view of the difficulty of making accurate valuation adjustments on an aggregate of securities whose volume has changed so drastically over 25 years since the last benchmark study, and whose composition is uncertain.

In the previous studies, in 1941 and 1949, two different approaches were followed. The 1941 study was a comprehensive census based on detailed questionnaires filed by corporations, or by U.S. nominees or custodians. The 1949 study was a more limited survey based on an examination of tax data. In embarking on a new benchmark survey we would have to examine carefully the advantages and disadvantages of these methods and other alternatives. I should point out, however, that there are inherent difficulties in a study of this type, most importantly in tracing beneficial ownership where nominees or street names or other intermediaries are used. Once the information is compiled, the legal requirements regarding confidentiality may limit the degree of detail which can be disseminated.

If a new benchmark survey of foreign portfolio investment were produced, we would be in a position to improve our analysis of the economic and financial implications of such investment. At the present time foreign portfolio investment is only a very small factor in the totality of U.S. securities. Our current information—which as I have noted may be deficient—suggests that the order of magnitude of all foreign portfolio investments in the United States, owned directly by foreigners or held for them by U.S. nominees, is less than 3 percent of the market value of all outstanding private U.S. securities.

Since the basic data on portfolio investment are collected by the Treasury Department, we would be prepared to assume responsibility for improving data in that field, under the authority of the proposed legislation. The funding requirements for a study of portfolio investment would depend on a number of factors including methodology, degree of coverage, and timing considerations.

I will be happy to answer questions from the members of the committee.

Exhibit 66.—Exploratory discussions between Secretary Simon and Minister Willem Duisenberg of the Netherlands, May 13, 1974, on the future role of gold in international monetary arrangements

Minister Willem Duisenberg of the Netherlands and U.S. Secretary of the Treasury William Simon held exploratory discussions today on the future role of gold in international monetary arrangements.

Minister Duisenberg outlined recent discussions among the Ministers of Finance of the European Community. He reported that the Ministers have agreed on two general propositions. First, they have reasserted that the SDR should become the principal reserve asset in the future system, and that arrangements for gold in the interim period should not be inconsistent with that goal. Second, they have agreed that such interim arrangements should enable monetary authorities to effectively utilize the monetary gold stocks as instruments of international settlement.

Secretary Simon agreed with Minister Duisenberg that we should seek to settle the future role of gold, including interim steps, by agreement on the widest possible international basis. The Secretary made clear his view that in considering any proposals a primary consideration should be the necessity of insuring that any changes in the international agreements relating to gold would facilitate the continuing orderly diminution of the international monetary role of gold and would contribute to the continuing evolution of economically responsive international monetary arrangements.

Exhibit 67.—Informal remarks by Under Secretary for Monetary Affairs Volcker, May 24, 1974, before the Conference on World Monetary Disorder at Pepperdine University, Malibu, Calif.

I now am convinced that you arranged this conference with some malice aforethought. I agreed to come, and then I saw the title. You named it "World Monetary Disorder." After 5½ years in Washington laboring in the monetary vineyards, I don't like to make my valedictory to a conference on monetary disorder!

I must say I was intrigued, too, by the subtitle of the conference. It says, "Conflict Between National Policies and International Imperatives." I was wondering about the distinction you had in mind between a "policy" and an "imperative." I decided you must have some internationalists here who decided to put the international side of things first. That is all right with me, but it does show what the problems are in international monetary reform. This is the guts of the matter. The preliminary program upon which I accepted the invitation put the issue more neutrally: It said, "Conflict and Cooperation," and I think that's a good description of what I have been going through in the past 5½ years. When we talk about monetary reform, we are talking about achieving a reconciliation between national imperatives and policies and requirements and objectives, and the needs of other countries and their own imperatives and requirements—generally termed, the interests of the international community.

We do have conflicts in this process, and we do have a need for cooperation. I think the creative act, of course, is to make out of the potential for conflict a cooperative order which can enable an individual country to further support its domestic objectives, such as growth and high standards of living, and at the same time mutually interact with others in supporting their goals.

If that sounds a little Pollyannish, and sometimes it seems that way, I would just remind you the whole theory of free and liberal trade is based on the simple notion that one can reconcile what is good for one country in the economic area with what is good for countries in general. And there is a road toward not simply making a gain at the expense of another, but all gaining together.

In a sense, that's what all of the discussion is about.

Now, that's highly philosophical, and I do want to come down a bit out of those clouds, because we are rapidly approaching a benchmark—not the completion of monetary reform, but a benchmark on the road in that direction—an end of one phase of the monetary reform discussions in a meeting scheduled with the so-called Committee of Twenty in the early part of June. One thing we expect with great confidence is that that will be the last meeting of the Committee of Twenty as such. They are finishing a phase of work after an intensive 2-year period of work on monetary reform—a 2-year period of work that has seen meetings in Washington and on a number of occasions in Paris, or Rome, Nairobi, and spots in between. One of my colleagues calculated how many thousands of meals the IMF has provided to all these conferees over the past 2 years and wonders what the result is.

The fact is, as you know, that these discussions on organized reform were caught somewhat in midstream or downstream, before all the decisions had been made, by two sweeping economic phenomena: First, the oil situation, a situation without any close parallel, I think, in international financial or economic history, featured by vast amounts of money moving through world markets from countries and to countries that in a financial sense haven't loomed large before, with great new problems inherent in the situation. It wasn't clear how this situation could or should be handled within the framework of a reformed monetary system. Secondly, and I would put even more emphasis on this factor than on the oil situation, there is the prevalence of worldwide inflation. With domestic monetary systems disturbed to the extent that they have been by rising prices, with all the instability and uncertainties associated therewith, it is difficult to have a strongly organized international monetary system. An international monetary system links domestic monetary systems, and if the domestic monetary systems are themselves in an unstable condition, it is very difficult to conceive of a stable international monetary system.

Because of these factors I think there is a consensus, very widely shared among governments, that for the time being the kind of flexible arrangements that are in place are going to have to persist for a while. There are certain advantages in these arrangements during this period of considerable uncertainty and fluctuations in domestic as well as international markets. If floating exchange rates are particularly suited to coping with anything, they certainly are suited to coping with this kind of uncertainty.

Against this background, it is time to pause and take stock of where we want to go and how we want to get there, and evolve a new system perhaps in a more evolutionary way than was contemplated when the reform process started some 2 years ago.

It's difficult to quarrel with that as a sensible approach, but it obviously is not a fully satisfactory situation. It's a frustrating kind of situation to be in, and

I think it's met with two different and opposite responses around the world by those who are to some degree frustrated by the reform effort. I will state these views in extreme form and caricature them a bit, but I do think there is some reality here.

There is a group that says that, in fact, all these reform discussions haven't achieved anything. Bretton Woods has broken up. We have made no progress in putting anything concrete in its place. Monetary reform is a failure. We ought to politely bury this reform exercise, wait a while, and start over again. I imagine that someone at Pepperdine may belong to that school judging from this title. I think it is a view that is quite widely held—perhaps particularly in some European circles—and I am tempted to label it the European banking view just to give you some flavor, recognizing that is a vast oversimplification. It is a view widely held by people who equate monetary reform with a rather rigidly fixed exchange rate system, convertibility and par values set and held firmly in place; if you don't have that you don't have anything: that's one view.

There is an opposite view that is considerably more smug, I would say. That school says all this monetary reform effort has been irrelevant, but that's essentially a good thing because the problem has basically been solved. We should have floating rates. We like floating rates. That's what we have, so regardless of what all you officials and others have been talking about interminably, events have turned out just fine. We have reform without knowing it, and a good reform, despite the best (or the worst!) efforts of the central bankers and Finance Ministers to arrange a different system. Let me call that view—just so you get a little flavor of it—the American academic view because I think it is rather widely held in American academic circles. But, again that is, of course, a caricature.

Now the one thing these two views have in common, as I noted, is they both think this organized reform method was rather beyond the point—either futile or damaging. What I have been doing for at least a good part of my time in recent years I shouldn't have been doing.

Now you won't be terribly surprised, I think, if I tell you I think both of these views are wrong, and rather fundamentally wrong. They both lead to a dead end and difficulties.

The first seems to me really a counsel of despair: that if you don't have a particular kind of system, which fits one vision of the future, you have nothing. The danger is this attitude easily leads to incentives not to cooperate in the context of what you have, not to make the best of what you have, not to recognize the fundamental need (whatever the formal characteristics of the system) to cooperate closely to make the system work.

I think the second school would lead—although it is a more hopeful and more optimistic school, in their view—to the same kind of difficulty. It ignores the fact that there are fragmenting tendencies in the world economically, not only in the monetary system but also in other elements of the world economy, to say nothing of political issues. They would ignore, in my view, that there are elements of disorder in the present situation, and in a general framework of floating and great flexibility—that flexibility can be abused—that we need to be working towards rules of conduct that help assure a more cooperative, a more assuredly cohesive system than what we have.

Those are the dangers I see implicit in the attitudes which I caricatured. I defend the proposition, the basic thesis, that we must move ahead—naturally in a sensible and evolutionary way—with this organized reform effort. I would just state a few fundamental propositions in that connection.

We do live in an interdependent world. We can't escape it. What others do affects us. What we do affects others. That's going to be true of any kind of an international monetary system we can design.

Let me take just one example. Proponents of floating rates have sometimes argued that one of the advantages of floating rates is that they enable a particular country to insulate itself from external influences—let us say, in the monetary policy area, as one area.

I question whether that's true. In fact I do not think it is true. What we see is that the basic interdependence only takes a different form. If one country has easy money and another high interest rates, in a floating rate system the first country doesn't lose reserves. You, therefore, don't have that kind of a crisis, or potential crisis, characterized by a reserve loss. But you do see your exchange rate depreciate.

For a variety of reasons, good and bad, psychological or real, very often people don't want to see the exchange rate of their currency depreciating sharply. For one obvious reason, it has got an inflationary impact at home. I would suspect from my years of observation, either inside or outside the U.S. Government, that there have been times in the past 2 years when the depreciation of the dollar in the exchange markets was at least as strong an influence on policymakers in terms of shaping their general economic policies, and monetary policies in particular, as international developments and international movements of funds had been under the old system. And, if we can contemplate situations in which one country may be happy with a depreciative exchange rate, we have to consider whether its trading partners are also willing to live with the situation.

So it is an illusion to think that we can design an international monetary system that insulates us from a need to cooperate and to integrate our policies to some extent with what's going on in the rest of the world.

Now, if that is true, my second thesis would be that we do need rules—some sense of rules, guidelines, codes of conduct, whatever you call them—as to what countries may do or not do in particular situations so that they don't get in each other's way. How do you, in a practical way, cooperate with each other when you are interdependent?

The rules obviously need to make economic sense; that's why we argue about how much flexibility in exchange rates, and we argue about objective indicators, and we argue about how much liquidity is right for the world and what to do about gold and what to do about SDR's and all the rest. These are all technical questions that you have to resolve in a way that makes economic sense—that respects the way markets in fact operate, that permits and promotes as free a flow of trade and capital as possible to promote competition, and all the rest.

That's a commonplace for an economist. But the second point that I would emphasize is you have to make political sense, too. You're dealing with international institutions, with a variety of countries, with international life and behavior. The rules have to appear to governments to be fair and evenhanded and equitable, not to give one country or another undue advantage, to treat them all more or less symmetrically in some sense. I think sensitivity to this political dimension may become more important, rather than less, as we move ahead. The United States is not as dominant as it once was. The self-consciousness, politically, of other countries is increasing as their economic strength increases. The European Community, collectively, is now strong and viable as an economy, almost equal to the United States. You see in many dimensions that the growing economic strength and effort at cohesion has a political expression. You can say the same thing about Japan. The voice of the developing countries is increasing. All of this needs to be respected in a reasonable monetary agreement, for that agreement is also political.

And, finally, as a corollary of these two points—monetary rules must be economically sensible and politically sensible—you must have a system that is reasonably understandable by the citizenry because you need some sense of national commitment to the rules if they are going to be any good at all.

In a way, after going through this exercise for too many years, I feel perhaps the hardest objective of all to achieve is to keep it all reasonably simple and understandable. It is so easy to elaborate one complex scheme after another which fits someone's idea—maybe mine, maybe somebody else's—of what's the most sophisticated and ideal kind of international monetary system. If somebody raises a problem, you are tempted to invent another little gadget here, there, or the other place to take care of it. It's very easy to forget the goal—but I don't think it is unimportant—of simplicity and understandability.

Now, given those criteria, I do think that a fair amount of progress, intellectual and substantive, has been made since that day in August 1971 when we suspended gold convertibility and, in effect, said the Bretton Woods system was finished. We don't have the new system, with all the T's crossed and I's dotted, to put in place. But I do think at this meeting in June we can represent in a fair way where the discussion stands, and if you stand back a little, that picture will show quite a lot of progress.

It will suggest, in that terribly difficult area that goes in the jargon under the label of the "adjustment process," a sensible approach of experimenting with a blend of so-called assessment and objective indicators, to summarize the complex discussions that have taken place through these years in just a few code words.

I think there is also a consensus for a more flexible use of exchange rates in the international system, a consensus that certainly does not extend to going to—or to maintaining permanently—a fully floating system.

I think there is a recognition that, in the liquidity area, we want to move toward emphasis on a new international reserve unit—the SDR as modified and adopted. We want to move away from dependence on gold and dependence on national reserve currencies.

These things almost sound like commonplaces now. I understand that any of them can be questioned. But I submit that they do represent a wide and, I think, rather deeply felt consensus among governments participating in this exercise—governments in all parts of the world.

Now, this does not imply that many questions have not remained open, particularly in the detailed implementation of these concepts. What I do think is that we will put forward in June a reasonable vision of the manner in which the system should evolve including those characteristics that I just mentioned. The framework will not be filled out in all detail although there will be a good deal of technical material accompanying the report to reflect the state of the technical discussion. There is, I believe, a willingness to experiment, together, with some of the technical devices that have been put forward, and also a willingness to recognize that they should be adapted, changed, evolved, in the light of experience. But I do think it is important that we do have some sense of an agreed vision, subject to evolution and adaptation, but some sort of agreed vision of the broad directions in which we want to move. And I think that possibility exists.

Backing that up, there are a series of immediate steps that can be taken to help manage the present situation and help move it toward the vision that I referred to. Steps will be taken at that time to redefine the SDR, to adapt it to this floating situation that we are now in, and to put that instrument practically on its feet. It is important that by the time of the meeting the so-called oil facility, or the Witteveen facility—a kind of backup facility for recycling some of these vast flows of oil money—be put in place, that it begin operating and begin operating soon. And I think the prospects for that are good.

In the present uncertain situation, with strong pressures and great uncertainties weighing very much on the minds of people in many countries responsible for their balance of payments and trade positions, it is important that countries of the Western World reaffirm their resolve not to take selective and restrictive trade measures for balance of payments purposes. I think we can strengthen the hand of the IMF in this area, and I would expect concrete progress on that front in June.

Most importantly to many people, given the situation which we are living in, I expect that governments will agree upon some general guidelines for floating—rules of good behavior in the management of a floating rate system—to help assure that one country intervening in the exchange markets, or taking other action to affect its exchange rate, observes rules of behavior that are compatible with the interests of other countries. I expect that such guidelines will be forthcoming at this meeting.

I think there will be more general indications of how we might experiment to exercise better surveillance over the adjustment process and the development of international liquidity.

Finally, there should be an institutional step taken—and sometimes these institutional steps turn out to be more important than any of the detailed policies adopted at a particular time—that I think over time will reinforce the central position of the IMF in managing the monetary system. The idea is to bring within the IMF, as a permanent body, a Council of Ministers charged both with keeping the reform exercise moving and give it some attention and direction, and with keeping the current situation, as it develops, under close review.

The object here, quite frankly, is to bring a little more political clout—international political clout—to the IMF, and in turn to have international concerns reflected intimately and directly in the councils of national governments, concerns that these ministers will help develop and generate by merely being in a meeting and sitting together discussing common problems. Let's force governments to sit together regularly, at reasonably frequent intervals, so that they can discuss problems around a meeting table, arrive at some consensus as to what reasonable action may be, and do it at a sufficiently high level of responsibility so that there is negotiating power, and when the official goes back to his capital there is some chance that there will be full followthrough on the agreed action. This can be an important institutional innovation in maintaining and strengthening the position of the IMF.

Now, in stating all this I fully recognize that, whatever my personal hopes and confidence, whether the objectives I express here will actually be borne out is going to depend, in the end, not upon what I say or what the communique says, or what the resolutions say, or what amendments to the IMF Articles say if we have those, but what people actually think, how strongly they support the objectives, and how they behave over time. Will they take it seriously or won't they?

Let me say there are certain Biblical criteria that may well be relevant here.

I think we need a certain amount of *faith*, in the sense of a political commitment by the governments in the Western World that they want to act together; that we're not all individually going to act in an isolationist way, but we recognize there is a broader community that must be served. We need that faith.

I think we need a little *hope* that internal economic pressures and domestic political turmoil aren't going to turn us inward; that, to take one important example, we can resolve our political problems here and abroad to the extent that such constructive initiatives as our trade legislation and international trade negotiations can go forward—an area which is so closely related to the monetary area.

Not least, in the light of the development problems around the world, we need in a quite literal sense to retain a sense of *charity*. Certainly, for instance, the IDA legislation now before the Congress is an essential part of the effort toward a constructive world order.

I have not discussed extensively the oil problem. But I would say briefly the most severe repercussions of that problem are for a group of developing countries that have no way of paying this increased oil bill without being faced, literally, with starvation and putting back their development programs for many years. Where progress in response to the crisis has, in a sense, been slowest, although the need is most urgent, is in meeting this particular need. I think the day is long since past when we could consider the problems of the developing countries as something out in left field or right field that we can deal with separately from the mainstream of the problems of the world economy.

So we need a little faith and hope and charity.

But I am not going to leave you with any thought I confuse myself with St. Paul because there is another thought that I would like to put all the emphasis on in closing: We all need a better sense of price stability in all of our domestic markets, including the United States, if monetary reform—and many other objectives—is to be a reality.

This is, perhaps, a very mundane note upon which to conclude. But the only thing that would really discourage me about this picture is if I thought that the United States could not get a handle on this inflation. I naturally worry a little less about other countries, but I also think it is important that they get a handle on this inflation problem. Whatever the mechanics of the system—whether we try to go in one extreme direction toward fixity or another direction toward floating rates—we are going to justify this label of disorder this meeting was given forever if we have inflation of the magnitude that characterizes the countries of the Western World today.

It would be a whole other talk if I attempted to deal with this problem in detail and what to do about it. I don't think we have given it enough attention in the past. I think we have been inclined, whenever the hard choices arise, to take the risks on the side of a little more inflation, in the thought that hurts a little less than other things. I think that attitude is rather widespread in the American community and in foreign communities. But I think at this point, at least I hope, it is becoming clear that that kind of thinking will ultimately be based on a misapprehension.

I am convinced that the kind of inflation that we now have, if prolonged, would have effects on American economic institutions, and certainly on financial institutions, that will mean that we don't face a simple tradeoff between a little more inflation and a little less growth, or a little unemployment. We will wind up with both—more severely than if this problem is handled in a more timely fashion.

I do think it can be handled. I think the prospects for slowing inflation are improving rather than getting worse. But I don't pretend that it's an easy problem, that we can avoid all risk of disturbances in the process of bringing inflation under control. But I think that's the direction in which, after twisting and turning, national policies are directed. I think that's the direction in which they must responsibly be directed. I think it is going to take some sustained effort to do the job.

I do want to emphasize again that I think our success internationally, or lack of success internationally, in the monetary area is going to be determined by the success of all these fights on the homefront, here and abroad, more than by any other action that I can think of anyone taking.

Exhibit 68.—Communique approved by the Council of the Organization for Economic Cooperation and Development, May 30, 1974, at its 359th meeting

1. The Council of the OECD met at Ministerial level in Paris on 29th and 30th May, 1974, under the Chairmanship of Mr. Antonio Giolitti, Minister for the Budget and Economic Planning of Italy. Ministers welcomed this opportunity to have an exchange of views in the light of the present international economic problems and underlined the constructive role which co-operation in the OECD can play in helping to solve these problems.

2. *The Problems.* Ministers identified three main outstanding problems which need further international co-ordination of national policies if they are to be solved:

- The widespread problem of inflation, already of serious proportions, has been aggravated by the sharp increase in the price of oil; anti-inflationary policies must be carefully chosen so as to avoid serious unemployment problems.
- For most OECD countries the international payments situation, radically altered by the oil price increase, has moved into substantial deficit on current account.
- Certain developing countries, including some of the poorest nations in the world, are facing a grievously worsened economic and financial situation.

3. *The Response.* Governments are resolved to approach all these problems jointly and concurrently, and Ministers emphasized their determination to develop a coherent set of measures to this end. In particular, they recognise that no acceptable solution to individual countries' problems of internal and external balance can be found in action which only shifts those problems across frontiers.

4. *Inflation and Employment.* Ministers recognise that, in all OECD countries, the present rates of inflation constitute a threat to economic and social progress. Their Governments therefore accord high priority to reducing the rate of price increases. They will seek to maintain economic activity at satisfactory levels and avoid policies that would transfer employment problems from one country to another. But Ministers agreed that great care is at present needed to avoid the emergence of excess demand in the OECD area, and that fiscal and monetary policies have to be shaped to this end. They also emphasized the need to use, where feasible, other, more selective, measures to increase supply and reduce inflationary expectations. And they agreed that OECD, taking account of work in other international bodies, should seek to identify policies conducive to better market stability of primary products with adequate supplies at prices equitable both for producing and for consuming countries.

5. *Trade and Payments Policy.* The need for OECD countries to adapt to the new balance of payments situation is a problem that, particularly, has to be tackled on an international basis. Governments are determined to take all appropriate action to limit the size and duration of the weakening of their current account positions. But they recognise that, in the years immediately ahead, a deterioration has to be accepted because of the oil price-rise. Ministers have also recognised that the financing of external deficits persisting despite the implementation of appropriate adjustment policies will constitute a difficult problem for some Member countries.

6. In these circumstances, Ministers are conscious of the special danger of

mutually conflicting policies to improve national competitive positions and agreed on the need to prevent new unilateral action which may have a detrimental impact on international economic relations. They have, as part of an overall response to the current situation, issued the attached Declaration, stating the determination of their Governments, for a period of a year, to avoid recourse to new restrictions on trade or other current account transactions and the artificial stimulation of visible and current invisible exports, which would be contrary to the objective of the Declaration.

7. The Declaration, at the same time, also expresses the agreement of Governments to co-operate fully to facilitate the financing of the deficits described above, and their readiness to consider appropriate arrangements which may prove necessary in this respect.

8. In addition, Ministers reaffirmed their support for the multilateral trade negotiations in the framework of the GATT and urged that these negotiations be regarded as a matter of priority. They stressed the importance in the present situation of these new efforts to liberalise trade.

9. Ministers welcomed the intensification of the Organisation's work on the issues related to international investment and to multinational enterprises, with a view to improving co-operation on these issues.

10. *Development Co-operation.* Ministers noted that Members of the Development Assistance Committee (DAC) and some other Member countries of the OECD will make strenuous efforts to maintain and enlarge the flow of their official development assistance with a view to promoting further economic and social progress of developing countries.

11. Ministers expressed particular concern at the acute economic problems of those developing countries with low income which are most seriously affected by the increase in the prices of oil and other essential imports. Although there is as yet no generally agreed estimate as to the amount of special assistance required by these countries, they noted the preliminary studies made by certain international organisations indicating that these requirements might amount, as an order of magnitude, to some \$3–\$4 billion up to the end of 1975.

12. Ministers of the countries which are Members of the DAC and some other OECD Members, recognising the need to contribute constructively to the follow-up of the Sixth Special Session of the General Assembly of the United Nations on Raw Materials and Development, agreed to make every effort to contribute in an appropriate manner to the special relief needed by the most seriously affected developing countries, bilaterally and within the framework of the appropriate international institutions. The DAC will review the progress of its Members' relief efforts under way and any further steps which may be appropriate. Ministers reiterated the view that all countries throughout the world in a position to do so should share the responsibility to contribute to the special relief of the most seriously affected developing countries.

13. Ministers agreed that all possible efforts should be made to ensure that shipments of fertilizers to developing countries with urgent needs are maintained at their previous level and that, through financial and technical assistance, encouragement should be given to increased production of fertilizers in developing countries.

14. *Energy.* Ministers discussed the consequences of recent developments in the world energy market. They agreed that a strong co-operative effort is needed if serious damage to the economic and social welfare of the OECD community as well as to the world economy is to be avoided. Ministers underlined their will to intensify international co-operation on energy problems and to strengthen OECD capability in this field.

15. Ministers noted that the work on the Long-Term Assessment of energy and related policies being prepared by the OECD has been accelerated and that the assessment will be at the disposal of Governments in October 1974 at the latest. They underlined the necessity to ensure energy supplies without undue, adverse impact on environmental conditions.

16. Ministers stressed the importance of OECD's work, already under way, in the fields of energy conservation and demand restraint, accelerated development of conventional energy sources, allocation of oil supplies in times of emergency and severe shortages, and energy research and development. The work on these subjects has been speeded up in order to permit early policy decisions.

Declaration

Adopted by the Governments of OECD Member countries on 30th May, 1974

GOVERNMENTS OF OECD MEMBER COUNTRIES*

Considering that, among other factors, the rise in oil prices is aggravating the economic problems confronting Member countries, and notably the problem of inflation, as well as causing additional structural problems, and that it is creating an unprecedented change in the structure of the balance of payments and, in particular, a deterioration of current accounts of Member countries as a whole;

Considering that all Member countries are affected by these developments though in varying degrees;

AGREE:

that the nature and size of the above-mentioned problems facing Member countries as well as a number of developing countries call for wide co-operative action in the fields of economic, trade, financial, monetary, investment and development policies;

that the financing of international payments deficits will constitute a difficult problem for certain Member countries and that, accordingly, Member countries will co-operate fully to facilitate such financing and are ready to consider appropriate arrangements which may prove necessary in this respect;

that unilateral trade or other current account measures by one or more Member countries to deal with this situation would aggravate the problems of other countries and, if generalised, would be self-defeating and have a depressing effect on the world economy;

that countries have responsibilities both as importers and exporters to avoid disruption of regular trade flows;

that, as a matter of urgency and without prejudice to the outcome of the monetary and trade negotiations, there is therefore a need for a joint undertaking having as its objective to prevent new unilateral action which may have a detrimental impact on international economic relations;

DECLARE THEIR DETERMINATION, in the light of the foregoing and for a period of one year,

(a) to avoid having recourse to unilateral measures, of either a general or a specific nature, to restrict imports or having recourse to similar measures on the other current accounts transactions, which would be contrary to the objectives of the present Declaration;

(b) to avoid measures to stimulate exports or other current account transactions artificially; and, inter alia, abstain from destructive competition in official support of export credit and aim at taking appropriate co-operative actions to this effect in the immediate future;

(c) to avoid export restrictions which would be contrary to the objectives of the present Declaration;

(d) to consult with each other, making full use of the general procedures of consultation within OECD, in order to assure that the present Declaration is properly implemented;

(e) to implement the present Declaration in accordance with their international obligations and with due regard to the special needs of developing countries.

Exhibit 69.—Welcoming address by Secretary Simon, June 4. 1974, to the International Monetary Conference, Williamsburg, Va.

I am honored to be the first speaker at the 1974 International Monetary Conference. It is also my pleasure to welcome many of you to the United States and, in particular, to be able to welcome you in Williamsburg. This graceful town has been the site of many historic meetings which were important in the evolution of our Nation's political concepts and institutions. In fact in this community, which has exhibited limited tolerance for despots, I am glad to be appearing as a mere minister and not as a "czar."

*Including the European Communities.

As a mere minister I am grateful for the reception you have given me. I know that you have traditionally invited U.S. Secretaries of the Treasury to participate in your discussions of current economic and financial issues. I appreciate the opportunity to take part—along with my colleagues, Arthur Burns and Paul Volcker—in discussions with such an experienced and knowledgeable group.

George Shultz told me that last year when he tried to talk on energy developments you insisted that he give more attention to international monetary affairs. Now, after the events of the past year, perhaps you would expect me to talk a lot about oil—and, admittedly, it is a subject which can't be ignored—but I really want to say more tonight about inflation and international monetary reform.

Of course, all these subjects are interrelated. The world is wrestling simultaneously with a uniquely strong and pervasive inflation; the need for rational and equitable arrangements for international access to raw materials and other commodities; and dramatic changes in international payments relationships.

These are problems on which we must work together, for we all know that they are problems which must be resolved not only domestically but internationally if our prosperity is to be assured. I suggest that we approach them with both confidence and a healthy respect; with a confidence derived from the durability, in both good times and bad, of the cooperative approach which the world has employed since World War II; and with a respect derived from a recognition that today's economic problems differ both in character and magnitude from those of the past.

Inflation

Certainly today's inflation is more pervasive than any experienced before in peacetime. In the United States we are in the unfamiliar position of seeing our price rises recorded in two digits, and few countries are doing better.

Some of the factors contributing to this widespread inflation are well known—the unique convergence of boom conditions in all industrial countries; sudden shortages of food resulting from natural disasters and burgeoning demand; and drastic changes in the energy balance. At the same time, we must recognize that these factors would not have led to the inflation we see today had our governments shown the wisdom to match financial policies to current reality.

Each government must bear responsibility before its own people for the inflation it permits. Governments which fail to deal effectively with inflation will be held answerable by their own constituencies. In this connection, however, international comparisons are important. I am sure each of our nations would be less tolerant of the inflation it has if other nations were presenting less disreputable records. More directly, we have all learned that increased prices of goods we import or extraordinary demands from abroad when foreign markets are overheated can complicate our inflationary problems at home.

Here in the United States, we have now recognized that inflation is our number one economic problem. It is not the only economic issue we presently face—there are many—but it is by far the most important, the most complex, and the most intractable.

I have confidence that the United States will come through this long bout with inflation without crippling effects. Our political and economic system has proved itself to be adaptable and durable. We have been in some tough economic situations in the past and yet succeeded in overcoming the difficulties and advancing to new higher levels of economic well-being for all our people. We shall do so again.

Yet I do not suggest that we will end the present inflation easily or quickly. A very high rate of inflation is now built into our system. To reduce that inflation to tolerable levels will take time, and it will not be achieved without pain.

There is no easy solution. We tried controls and found them wanting. For a while, back in 1972, it seemed that controls were making a small but useful contribution. Today, however, almost everybody agrees that, whether or not controls can help for a limited period under certain special circumstances, they are not the basic answer to inflation.

The only answer lies in the teachings of "that old-time religion": *more* production and *less* financial laxity. We must return to a proper balance of fiscal and monetary policy. And these precepts will have to be practiced in a consistent and disciplined way over a considerable period of time.

Let me give a specific example where that discipline must be exercised. Right now the U.S. Congress is considering proposals to reduce income taxes as a way of stimulating the economy by increasing consumer spending. These proposals come at a time when there is no question that the real incomes of many American families have fallen as a result of the reduced supplies and increased prices of food and energy. Nobody is happy about that and we must turn that situation around so that individuals' real income is clearly growing. Furthermore, whenever we can, we must improve the equity of our tax system.

But cutting overall taxes will not solve these problems. Putting more money into the hands of our citizens will not put more food on their tables or more gasoline in their tanks. At present, with most sectors of the economy still operating at full capacity and with materials shortages still widespread, the extra spending generated by a tax cut would do very little to production and employment and real earnings. Instead, it would only mean more dollars chasing an already limited supply of goods—and that would only mean more inflation—and over time inflation reduces the effectiveness of an economy. This in turn reduces production and real income.

Frankly, I am mystified to hear some economists talk about recession and the need for tax cuts at a time when businessmen are facing shortages of materials and delays in deliveries, not lack of sales and orders.

A tax cut would, moreover, inevitably put more strain on our financial markets. The Treasury would have to borrow the revenues lost via the tax cut. That would put more upward pressure on interest rates and on the already pinched supply of funds for housing. It would mean a further squeeze on the availability of investment funds for the capital projects needed for new productive capacity, for antipollution equipment, and for Project Independence. In short, a tax cut would be wrong. It would worsen our inflation when what we need is an attack on the basic causes of inflation.

For this purpose we need two kinds of economic policies. First, to deal with specific price problems we need policies to maximize output, for example, in the fields of agriculture, energy, and raw materials. Second, to deal with inflation in the balance of the economy, we need fiscal and monetary policies which will prevent total demand from exceeding our capacity to produce.

Indeed, in present circumstances we may have to go a little farther than that. If overall demand and productive capacity were just in balance today, inflation might continue at near present rates for a while given the state of public expectations. After years of disappointment we have ingrained inflationary expectations which must be wrung out through credible policies. To unwind inflation, the economy may have to operate for a time at a bit less than full capacity. Demand will have to be below total potential output—very close to it, but below. Sales will show a healthy growth, but that growth will have to be constrained so that if businessmen try to raise prices too fast, competitive pressures will prevent them from doing so. Employment will grow, too. But our labor markets must not be too tight, so that the joint worker-management process of wage determination will result in a gradual deceleration of the upward trend of pay scales.

At the same time we must have adequate programs in effect to insure that adjustment does not place too heavy a burden on any segment of our society. It was in recognition of this necessity that the President recently expanded the assistance programs available to housing and proposed a further improvement of our unemployment insurance programs. But overall the hallmark of our Government's financial programs today must be moderation.

This prescription will not gain universal acclaim. All of us would like to see spending increase for worthwhile government programs, credit easily and generally available at low interest rates, corporate profits growing vigorously, and unemployment held to an absolute minimum. The economic policies I have outlined will give us most of this, but not all. We will have growth and prosperity but—if we are to make some headway against inflation—the economy cannot operate at flatout, full capacity.

There is no other way. To squeeze inflation out of the system, we will have to run our economy for a while at less than full steam.

I believe this is a realistic, achievable policy. The political climate has changed on economic matters. Good economics is becoming good politics. I believe the American people are now ready to support tough anti-inflation policies. The past year and a half has reinforced their natural aversion to inflation. They don't believe Government can provide something for nothing. They will support restraint on Federal spending, and they will be willing to live with an economy that is growing vigorously, but not excessively so, to break the back of inflation.

At the same time, I believe that the American people also recognize that we must cooperate internationally to insure that our monetary and trading arrangements contribute to the fight against inflation by allowing each nation to derive the maximum benefit from its economic resources. Next week I shall have the opportunity to discuss this subject with my colleagues in the Committee of Twenty when it meets in Washington.

Energy and raw materials

Even earlier, however, on Thursday and Friday of this week, I shall participate in discussions in Washington with the senior ministers of the world's largest oil-exporting nation, Saudi Arabia. Those discussions will consider ways in which we might cooperate with the Saudi authorities in the development of their country, in the most productive investment of their growing financial resources, and in the creation of rational rules for the future conduct of international trade in energy and raw materials. Of course, I shall explain why it is clearly in the common interest of both oil producers and consumers not to take actions which will prevent market forces from bringing about somewhat lower levels of oil prices. More reasonable prices of oil would contribute greatly to the strength of the world economy; and that strength is of vital interest to all of us, not least to those nations which are large suppliers of energy and investors on a large-scale basis. Here is an area in which international cooperation can play a role of vital importance in combating worldwide inflation.

International monetary developments

But even at somewhat lower levels of oil prices over the next year, it is clear that the increased costs of oil imports will be so great that many consuming nations will wish to borrow to ease their transition to the new era of higher cost energy. In other words, they will choose to run current account deficits in their international payment balances. At the same time, a number of the major oil producers will wish to invest abroad substantial proportions of their enlarged revenues in the recognition that these sums can be invested in the most productive, orderly manner in their own economies only over a period of years. These nations can derive the maximum benefits from producing and selling their natural resources only if they sell when the demand is most intense—and that is probably right now—but that maximum benefit will not be realized if productive investments are not found for their funds.

In practice these investment funds are probably now being accumulated at the maximum rate. Over the coming months the gearing-up of the development programs of the oil producers and the lower levels of export prices (which I expect) will reduce the rate of accumulation. But the sums available for investment will in any event be large.

The investment strategy of the oil-producing countries will probably evolve over time as they gain experience in managing their growing financial resources. For the immediate future, it seems likely that substantial portions of their resources will initially be placed through markets in Europe, especially the Eurocurrency market. However, whether invested directly or through intermediaries, it seems a fair expectation that a large proportion of the obligations will be denominated in U.S. dollars and that ultimately considerable amounts of the funds will find their way into the highly developed capital markets of the industrial world, particularly that of the United States. To conservative investors—and the oil-producing countries are proving themselves conservative as well as prudent—diversification offers security, so that they will wish their investments not to be overly concentrated geographically; but neither will they want overconcentration in particular fields of investment, and diversification for large amounts in this respect can best be found in the most highly developed markets.

Although the potential amount of funds flowing into the hands of the oil-producing countries is absolutely large, it is not overwhelming in the context of the total size of the world's capital markets. In the United States alone equity and debt securities outstanding at the end of last year, including commercial paper and large denomination certificates of deposit, amounted to about $1.8 trillion. During 1973, a total of $187 billion was raised in U.S. credit markets. Clearly these numbers are large in relation to any likely flow of "oil money" in any one year. On the other hand, we must take care that individual parts of our financial structure do not become overloaded in the process of handling the new flows of funds.

In this connection attention has been focused on the Euromarket. The total of outstanding obligations in that market, net of Inter-Bank obligations, is estimated to have grown to about $150 billion by the end of last year, with an increase of some $50 billion during that one year. During the early months of this year the growth of that market appears to have further accelerated. In this situation of rapid change there must be an unusually strong responsibility on a depositor or a lender to insure that the firm he is dealing with has not become overextended and has capital commensurate with its new higher levels of fixed obligations. There is an unusually strong responsibility on the financial intermediary to insure that it is maintaining a reasonable balance in its maturities, that it is not, for example, borrowing only at short term and lending only for very long term. I am enough of a believer in the acumen of the men who built up the flourishing Euromarket to believe that they will fulfill their responsibilities in this area. I have heard that in recent weeks, for example, strong new resistance has developed to the acceptance in the Euromarket of new investments on a very short-term call basis. I find this response of the private institutions encouraging.

There is nonetheless a proper role for governments in these matters, a role which varies according to circumstances. At present, when there are vast sums which must find their way into productive use, moves which give greater scope to freedom of capital flows are generally opportune. For this reason I was very pleased that the United States was able in January to terminate its "temporary" capital control programs, some of which dated back to 1963. There are opportunities also for other countries to reduce their controls. In a related area, I commend the recent tentative decision of the House Ways and Means Committee to eliminate withholding and estate taxes on foreign portfolio investments in the United States.

But I believe, too, that governments have regulatory responsibilities in relation to financial institutions to assure protection for depositors and customers, and we mean to continue to discharge those responsibilities for institutions under U.S. jurisdiction.

We need to recognize that foreign exchange operations have in recent years become of much greater interest to many banks. This is a healthy development, consonant with the rapid growth of international transactions and important to the proper functioning of foreign exchange markets. However, recent developments both here and abroad make clear the need to conduct foreign exchange transactions with prudence. Banking institutions deal with others' money and have a special responsibility not to risk it in overly speculative ventures.

I am sure that in the light of some recent experiences that banks will in the future monitor the activities of their foreign departments with increased care. Bank regulators, also, have a responsibility to exercise greater surveillance in this area.

The developments I have been discussing have led some observers to ask whether the challenges ahead raise questions regarding the soundness of the international banking system and its component institutions. In each separate country, it's recognized that the authorities stand ready to support the stability of that country's financial system. But it is suggested that the Euro-banking system has no comparable focus of authority charged with particular responsibility for that market.

I believe that this concern is, at the least, greatly exaggerated. Certainly, in the case of the United States, it is clear that the authorities do have a responsibility to supervise U.S. banks in both their domestic and international operations, and a major part of that responsibility is to insure that they are in a sound position to meet their total liabilities. I feel sure that the authorities of other countries have a similar view.

Governmental regulation and emergency facilities can never substitute for prudent financial management. Governments cannot, and should not attempt to, assume the risks of the stockholders of individual banks. That is as it should be, for the main focus must always be on the responsibility of the banker himself.

Fundamentally, my confidence that our markets and our institutions will adapt safely and flexibly to changes we are now experiencing is also based on the fact that the governments of the world are now dedicated to international cooperation. A prime example is provided by the current efforts in international financial cooperation. At this point I can't tell you exactly what will come out of the meetings of the C–20 Ministers in Washington next week. Even though preparatory work of unusual thoroughness has already been done, important negotiations remain yet to be completed.

Nonetheless, I can list for you some of the areas in which there are reasonable grounds for hope that useful agreements can be reached. In fact, we have an opportunity, if we succeed, to announce a sizable package of significant measures, many of which could be implemented promptly.

One important agreement could cover a proposed amendment to the IMF Articles, and an interim pledge to be in force while that amendment was undergoing ratification, to provide that governments would not introduce new restrictions or subsidies on current account transactions for balance of payments purposes without the concurrence of the IMF. This agreement would build upon the temporary pledge entered into by major developed nations in Paris last week at the Ministerial Council of the OECD. The proposed agreement in the IMF would involve a much larger number of countries and would imbed the new undertaking into the formal structure of international agreements. Such an agreement should strengthen the hands of governments in resisting the pressures of particular interest groups which may be urging their governments to respond to the new payments developments with discriminatory, disruptive measures which would be detrimental both to other nations and to the general welfare of the nations introducing the new measures.

Such a standstill agreement would be a supplement, not a substitute, for the negotiations now underway under the auspices of the GATT for a broad reduction in existing trade restrictions. In order that the United States may participate effectively in those negotiations, we are pleased that our Senate Finance Committee has now begun what it is hoped will be the final stages of its consideration of the Trade Reform Act. Now that a settlement has finally been reached with the European Community countries on the so-called XXIV:6 problem, we can hope for final passage of this legislation this summer.

We need this legislation, and the reduction in the trade barriers it should permit, more than ever in the light of the events of the past year. I cannot forecast with any certainty whether the United States will have a trade surplus or a trade deficit overall this year, but I can predict with confidence that the increase in oil costs will leave the United States with a trade position not nearly as strong as that we had in the final months of last year. And that development leaves us more determined than ever that our traders not be damaged by discriminatory foreign restrictions.

A second area in which we hope the Finance Ministers can bring about agreement concerns new arrangements for more flexible use of the IMF's capacity for financial assistance to member nations struggling to avoid extreme reduction in their imports in view of the oil price increases. In this area, where Dr. Witteveen has exhibited great initiative, we hope that arrangements can be found which will prove satisfactory to those who will be lending to the IMF, to those who will effectively be guaranteeing repayment of that lending, and to those many nations who hope to borrow the funds from the IMF. Since the loans to the IMF are likely to be at interest rates close to market rates, it is our belief that the corresponding loans from the IMF should also be at close to market rates. And we believe that most borrowers will be able appropriately to pay such rates.

There will be a small number of countries, however, which cannot be expected to pay such rates or to repay at all within the next few years. The problems of these countries of extremely weak financial positions now most seriously affected by the increase in the costs of oil and other imports represent a third area which the Finance Ministers must address. To assist in considering this and other developmental issues, the Ministers will have before them next week a proposal to establish a new Development Council composed largely of Finance Ministers and organized along the lines of the C–20 itself, which will probably go out of existence next week. The new Council would not be within either the IMF or the World Bank but would be supported by both.

Before leaving the question of development assistance, I want to mention a matter of pending U.S. legislation that will affect the entire spirit and tone of our C–20 discussions. Last week the Senate passed—by a two-to-one margin—the bill providing for a $1.5 billion U.S. contribution to the International Development Association, or IDA, which is the soft-loan window of the World Bank. This is the same contribution the House of Representatives voted down last January. We are now going to try for House reconsideration of the bill before June 30, when the Association's present funds will be exhausted. IDA is the cornerstone of international cooperation in the development finance field. Needless to say, our negotiating partners in the international trade and monetary fields are following closely to see whether or not we are prepared to do our fair share in the development area as well.

At the meeting next week the Finance Ministers, quite apart from their consideration of developmental matters, will also have the opportunity to reach agreement on a continuing group at the Ministerial level to keep the operation and evolution of the international monetary system under review. This group would serve within the IMF, initially as an appointed advisory committee and later, after amendment of the Articles, as a formal Council of Governors acting as a sort of executive committee between the 126-man Board of Governors and the full-time committee of Executive Directors resident in Washington.

The Ministers next week will have the opportunity to see whether they can work toward new rules for gold which would both assist nations in responding constructively to current alterations in their payments positions and facilitate practical steps toward the agreed objective of a diminishing monetary role for that metal. I sincerely hope we can at long last make some tangible progress in this complex area. That progress will be all the more feasible if, as seems entirely possible, we can reach agreement on a basket of currencies in terms of which for the time being it will be possible to express all obligations to and from the IMF both on regular drawings and on use of special drawing rights, the SDR.

At the same time, the Ministers will be able to build confidence in present monetary arrangements if they can reach agreement on a set of guidelines for the actions of governments in intervening in private foreign exchange markets and in conducting other balance of payments policies.

And, finally, the Ministers will have the opportunity to agree on a comprehensive outline of the general directions in which they feel it would be useful for the international monetary system to evolve over the coming years. Such an outline would not be a commitment to any specific actions, but it would be an integrated conception to be taken into account—along with other factors and experiences—in making the many future individual decisions which will determine the actual evolution of the system. The basic thrust of the outline to be placed before the Ministers is that efforts should be made to avoid international monetary instability but that this objective can best be achieved, not by foredoomed efforts at complete exchange rate rigidity, but by a system which will encourage prompt, orderly, and flexible adjustment to changes in economic circumstances.

From this long listing I have presented you can see that the Finance Ministers have their work cut out for them. But that is what we were hired for. With the support of the private banking community—with your support—with a continuing spirit of cooperation among the nations of the world, we can be the masters of our own economic future.

Thank you, and best wishes for a successful conference.

Exhibit 70.—Communique of the Committee of Twenty, June 13, 1974, on international monetary reform and related issues

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 20) held its sixth and final meeting in Washington on June 12–13, 1974, under the chairmanship of Mr. Ali Wardhana, Minister of Finance of Indonesia. Mr. H. Johannes Witteveen, Managing Director of the Fund, took part in the meeting which was also attended by Mr. Gamani Corea, Secretary-General of the United Nations Committee on Trade and Development, Mr. Frederic Boyer de la Giroday, Director of Monetary Affairs of the European Economic Community, Mr. René Larre, General Manager of the Bank for International Settlements, Mr. Emile van Lennep, Secretary-General of the Organization for Economic Cooperation and Development, Mr. Olivier Long, Director-General of the General Agreement on Tariffs and Trade (GATT), and Sir Denis Rickett, Vice-President of the International Bank for Reconstruction and Development.

2. The Committee concluded its work on international monetary reform; agreed on a program of immediate action; and reviewed the major problems arising from the current international monetary situation.

3. The program of immediate action is as follows:

(a) Establishment of an Interim Committee of the Board of Governors of the Fund with an advisory role, pending establishment by an amendment of the Articles of Agreement of a Council with such decision-making powers as are conferred on it.

(b) Strengthening of Fund procedures for close international consultation and surveillance of the adjustment process.

(c) Establishment of guidelines for the management of floating exchange rates.

(d) Establishment of a facility in the Fund to assist members in meeting the initial impact of the increase in oil import costs.

(e) Provision for countries to pledge themselves on a voluntary basis not to introduce or intensify trade or other current account measures for balance of payments purposes without a finding by the Fund that there is balance of payments justification for such measures.

(f) Improvement of procedures in the Fund for management of global liquidity.

(g) Further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

(h) Adoption for an interim period of a method of valuation of the SDR based on a basket of currencies and of an initial interest rate on the SDR of 5 percent.

(i) Early formulation and adoption of an extended Fund facility under which developing countries would receive longer-term balance of payments finance.

(j) Reconsideration by the Interim Committee, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, of the possibility and modalities of establishing a link between development assistance and SDR allocation.

(k) Establishment of a joint ministerial Committee of the Fund and World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures.

(l) Preparation by the Executive Board of draft amendments of the Articles of Agreement for further examination by the Interim Committee and for possible recommendation at an appropriate time to the Board of Governors.

These measures are described in more detail in the statement attached to this communiqué.

4. Members of the Committee expressed their serious concern at the acceleration of inflation in many countries. They agreed on the urgent need for stronger action to combat inflation, so as to avoid the grave social, economic and financial problems that would otherwise arise. They recognized that, while international monetary arrangements can help to contain this problem, the main responsibility for avoiding inflation rests with national governments. They affirmed their determination to adopt appropriate fiscal, monetary, and other policies to this end. In the discussion Members of the Committee urged that the multilateral trade negotiations in the framework of GATT should continue to be regarded as a matter of priority.

5. The Committee noted that, as a result of inflation, the energy situation, and other unsettled conditions, many countries are experiencing large current account deficits that need to be financed. The Committee recognized that sustained cooperation would be needed to ensure appropriate financing without endangering the smooth functioning of private financial markets and to avert the danger of adjustment action that merely shifts the problem to other countries. Particular attention was drawn to the pressing difficulties of the most severely affected developing countries. Members of the Committee therefore strongly emphasized their request to all countries with available resources and to development finance institutions to make every effort to increase the flow of financial assistance on concessionary terms to these countries.

6. In concluding its work on international monetary reform, the Committee agreed to transmit a final Report on its work, together with an Outline of Reform, to the Board of Governors.

Detailed Statement of Immediate Steps To Assist the Functioning of the International Monetary System

Introduction

1. The Committee recognizes that it will be some time before a reformed system can be finally agreed and fully implemented. It therefore proposes that, in the interim period, the Fund and member countries should pursue the general objectives set out in paragraph 1 of the Outline and should observe, so far as they are applicable, the principles contained in Part I of the Outline. It further proposes that a number of steps should be taken immediately to begin an evolutionary process of reform and to help meet the current problems facing both developed and developing countries, and calls upon members to collaborate with the Fund and with each other to give effect to those proposals as set out below.

Interim Committee of the Board of Governors on the International Monetary System

2. The Committee recommends the establishment of an Interim Committee of the Board of Governors on the International Monetary System, with an advisory role in those areas in which the Council referred to in paragraph 31 of the Outline will have decision-making powers, namely, in supervising the management and adaptation of the monetary system, overseeing the continuing operation of the adjustment process, and dealing with sudden disturbances which might threaten the system. It notes that the Executive Directors are accordingly preparing for adoption by the Board of Governors a Resolution to establish the Interim Committee. It is envisaged that the new Committee will hold its first meeting at the time of the Annual Meeting in September.

The adjustment process

3. The Committee recognizes that in the interim period, with significant changes in prospect for the world balance of payments structure, there is a need for close international consultation and surveillance of the adjustment process. It recommends that countries should be guided in their adjustment action by the general principles set out in paragraph 4 of the Outline. It calls upon members to cooperate with one another and with international institutions, during the current period of exceptional and widespread payments imbalances, to find orderly means to deal with these imbalances without adopting policies that would aggravate the problems of other countries, and to promote equilibrating capital flows: in this connection the Committee has endorsed the immediate establishment of a facility in the Fund to assist members in meeting the initial impact of the increase in oil import costs. The Committee calls upon the Fund to exercise surveillance of the adjustment process through the Council (or, for the time being, the Interim Committee of the Board of Governors) and the Executive Directors, on the lines of the procedures set out in paragraphs 5–10 of the Outline, and subject for the time being to the following provisos, namely that:

(a) the Fund will seek to gain further experience in the use of objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but will not use such indicators to establish any presumptive or automatic application of pressures;

(b) determination of what is a disproportionate movement in reserves will be made in the light of the broad objectives of member countries for the development of their reserves over a period ahead, as discussed with the Fund; and

(c) the pressures which may be applied to countries in large and persistent imbalance will continue to be those at present available to the Fund.

Exchange rates

4. The Committee stresses that, during the interim period, exchange rates will continue to be a matter for international concern and consultation and attaches particular importance to the avoidance of competitive depreciation or undervaluation. The Committee notes with satisfaction that in accordance with its recommendation the Executive Directors are adopting a decision on guidelines for the management of floating exchange rates during the present period of widespread floating.

Controls

5. The Committee recommends that, during the interim period, countries should be guided by the principles set out in paragraphs 14–17 of the Outline in relation

to controls and to cooperative action to limit disequilibrating capital flows. The Committee attaches particular importance to the avoidance of the escalation of restrictions on trade and payments for balance of payments purposes during the interim period. The Committee invites members to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes attached to this statement. The Committee invites the Executive Directors to establish the necessary procedures in connection with the Declaration, and to make arrangements for continuing close coordination with the GATT.

Global liquidity

6. (a) The Committee calls upon members to cooperate with the Fund during the interim period in seeking to promote the principle of better management of global liquidity as set out in paragraph 2(d) of the Outline. It recommends that the Fund should assess global reserves and take decisions on the allocation and cancellation of SDRs in accordance with paragraph 25 of the Outline, and should periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 of the Outline and, if they are judged to show an excessive increase, should consider with the countries concerned what steps might be taken to secure an orderly reduction.

(b) The Committee further recommends that the Fund should give consideration to substitution arrangements.

(c) Finally, the Committee recommends that there should be further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

Valuation of the SDR

7. The Committee notes with satisfaction that, following its recommendation concerning the interim valuation and interest rate of the SDR, the Executive Directors are adopting decisions on these questions.

The special interests of developing countries

8. The Committee recognizes the serious difficulties that are facing many developing countries, and agrees that their needs for financial resources will be greatly increased. It urges all members with available resources to make every effort to supply these needs on appropriate terms. To this end it calls upon countries with available resources and upon development finance institutions to make arrangements to increase the flow of concessionary funds, and to give consideration to various measures including the redistribution of aid effort in favor of countries in greatest need, interest subsidies, and short-term debt relief on official loans in the special case of countries without access to financial markets. The Committee urges the Executive Board to proceed to an early formulation and adoption of a new facility in the Fund under which developing countries would receive longer-term balance of payments finance. The Committee is not unanimous on the question of establishing a link between development assistance and SDR allocation. The Committee is agreed that the Interim Committee should reconsider, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board of Governors by February 1975, the possibility and modalities of establishing such a link.

Ministerial committee on the transfer of real resources

9. The Committee recommends the establishment of a joint ministerial Committee of the Fund and World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries, and to recommend measures to be adopted in order to implement its conclusions. It invites the Managing Director to discuss with the President of the World Bank the preparation of appropriate parallel draft Resolutions on the establishment of such a joint ministerial Committee for adoption by the respective Boards of Governors. It recommends that the joint ministerial Committee should also give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies, and that preparatory work on this aspect should be started immediately, in advance of the establishment of the Committee.

General review of quotas

10. The Committee notes that work has started on the current general review of Fund quotas and urges the Executive Directors to complete their work as soon as possible, bearing in mind the general purposes of the reform.

Amendments of the Articles of Agreement

11. The Committee has asked the Executive Board to prepare draft amendments of the Articles of Agreement, as needed to give effect to Part II of the Outline or as otherwise desired, for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular, draft amendments should be prepared on the following proposals:

(a) to establish the Council referred to in paragraph 31 of the Outline;

(b) to enable the Fund to legalize the position of countries with floating rates during the interim period;

(c) to give permanent force to the voluntary pledge described in paragraph 5 above concerning trade or other current account measures for balance of payments purposes;

(d) to authorize the Fund to establish, as and when agreed, a Substitution Account;

(e) to amend the present provisions concerning gold;

(f) to authorize the Fund to implement a link between development assistance and SDR allocation; and

(g) to introduce improvements in the General Account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at latest by the date fixed for completion of the current general review of Fund quotas, i.e., by February 1975.

Declaration on Trade Measures

The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues has stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes. Accordingly, certain members of the Fund have expressed their wish to subscribe to a Declaration as follows to give effect to that recommendation.

Declaration

A. A member of the Fund that subscribes to this Declaration represents thereby that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement of the Fund, it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a prior finding by the Fund that there is balance of payments justification for trade or other current account measures.

B. A member that subscribes to this Declaration will notify the Fund as far in advance as possible of its intention to impose such measures. If circumstances preclude the Fund from making the finding referred to in A above promptly after such notification, the member may nevertheless impose such measures, but will withdraw the measures, within such a period as may be fixed by the Fund in consultation with the member concerned, if the Fund finds that there is no balance of payments justification for trade or other current account measures.

C. In arriving at the findings referred to above, the Executive Directors are requested to take into account the special circumstances of developing countries.

D. In connection with this Declaration arrangements will be made for continuing close coordination between the Fund and the GATT.

E. This Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

Exhibit 71.—Report of Committee of Twenty transmitting an "Outline of Reform" with accompanying annexes, June 14, 1974

On July 26, 1972, the Board of Governors adopted Resolution 27-10, which established the Committee and instructed it to advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system. On September 24, 1973, during the annual meeting in Nairobi, the Chairman of the Committee, Mr. Ali Wardhana, submitted to the Board of Governors an interim report on the work of the Committee, together with a "First Outline of Reform" which had been prepared by the Chairman and Vice Chairmen of the Deputies and which, in his view, reflected the stage then reached in the Committee's discussions. In that report it was stated that the Committee intended to settle the issues of reform by July 31, 1974. The Committee now presents its final report, together with an "Outline of Reform."

Since the Nairobi meeting, the uncertainties affecting the world economic outlook, related to inflation, the energy situation, and other unsettled conditions, have increased. Major changes are occurring in the world balance of payments structure, and it is not yet clear to what extent the positions of individual countries will be altered or how adjustment will be achieved.

These conditions of greater uncertainty have led to a change of emphasis in the work of the Committee. It has been recognized that priority should be given to certain aspects of reform which have become all the more urgent. Thus, for example, during the current period of exceptional and widespread payments imbalances, there is a particular need to maintain close international consultation and surveillance of countries' balance of payments policies in the Fund, and to develop orderly means of financing these imbalances, including means of supplying on appropriate terms the increased needs of many developing countries for financial resources. On the other hand, it is recognized that other aspects of reform will need to be developed and implemented at a later date. Thus, for example, it may be some time before there is a return to a system based on stable but adjustable par values or to general convertibility; nor will the full arrangements for management of the adjustment process and of global liquidity necessarily be feasible in the period immediately ahead.

Given, therefore, that there will be an interim period before a reformed system can be finally agreed and fully implemented, the Committee regards it as of the highest importance that immediate steps should be taken to begin an evolutionary process of reform, and that other action taken in this field during the interim period should be consistent with the principles of reform.

These considerations are reflected in the attached "Outline of Reform." The outline and the accompanying annexes also reflect the detailed work which has been done by the Deputies since the Nairobi meeting.

The outline itself is in two parts. Part I, "The Reformed System," records the outcome of the Committee's discussion of international monetary reform and indicates the general direction in which the Committee believes that the system could evolve in the future. This involves an enlargement of the scope of international surveillance and management in a number of important areas, and a consequently larger role for the Fund. It is envisaged that there should be more effective and symmetrical adjustment procedures which, while leaving the choice of particular policies as far as possible to the country concerned, will nevertheless ensure, through a process of assessment supported by reserve indicators and by graduated pressures, that appropriate action is taken where necessary; that the convertibility system should promote the better management of global liquidity and the avoidance of uncontrolled growth of reserve currency balances, and that the SDR should become the principal reserve asset, with the role of gold and of reserve currencies being reduced; and that there should be arrangements to give positive encouragement to economic development and to promote an increasing net flow of real resources to developing countries.

Part I of the outline contains references to the accompanying annexes. As stated above, the Committee has recognized that, in view of present uncertainties, it is not appropriate to attempt now to determine the full details of all aspects of the system, many of which can better be decided in the light of future developments. A number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the annexes. These annexes have been prepared by the Chairman and Vice Chairmen of the Deputies to record the state of discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation.

Part II of the outline sets out the immediate steps on which the Committee is agreed. These include the establishment of an Interim Committee of the Board of Governors and subsequently of a Council; the strengthening of Fund procedures for close international consultation and surveillance of the adjustment process; the adoption of appropriate guidelines for the management of floating exchange rates during the present period of widespread floating; establishment of a facility in the Fund to assist members in meeting the initial impact of increased oil import costs; the reinforcement of the presumption against restrictions on trade and payments for balance of payments purposes; improvement of procedures in the Fund for management of global liquidity, and further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform; the adoption of an interim method of valuing the SDR in transactions against currencies; measures to supply the needs of developing countries, as well as reconsideration of the possibility and modalities of establishing a link between development assistance and SDR allocation, and arrangements for carrying forward the study of the broad question of the transfer of real resources; and the preparation of draft amendments of the Articles of Agreement, for further examination by the Interim Committee and for possible recommendation at an appropriate time to the Board of Governors.

OUTLINE OF REFORM

PREFACE

The Committee recognizes that, in view of present uncertainties related to inflation, the energy situation and other unsettled conditions, it is not appropriate to attempt to determine the full details of all aspects of the future international monetary system, many of which can better be decided in the light of future developments. Part I of this Outline ("The Reformed System") records the outcome of the Committee's discussion of international monetary reform and indicates the general direction in which the Committee believes that the system could evolve in the future. A number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the Annexes accompanying the Outline. These Annexes have been prepared by the Chairman and Vice-Chairmen of the Deputies to record the state of the discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation. Part II of the Outline ("Immediate Steps") sets out the steps which the Committee is agreed should be taken immediately.

Part I: The Reformed System

Introduction

1. It is agreed that there is need for a reformed world monetary order, based on cooperation and consultation within the framework of a strengthened International Monetary Fund, that will encourage the growth of world trade and employment, promote economic development, and help to avoid both inflation and deflation.

2. The main features of the international monetary reform will include:

(a) an effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regime based on stable but adjustable par values and with floating rates recognized as providing a useful technique in particular situations;

(b) cooperation in dealing with disequilibrating capital flows;

(c) the introduction of an appropriate form of convertibility for the settlement of imbalances, with symmetrical obligations on all countries;

(d) better international management of global liquidity, with the SDR becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;

(e) consistency between arrangements for adjustment, convertibility and global liquidity; and

(f) the promotion of the net flow of real resources to developing countries.

3. It is recognized that the attainment of the purposes of the reform depends also upon arrangements for international trade, capital, investment, and development assistance including the access of developing countries to markets in developed countries; and it is agreed that the principles which govern the international monetary system and arrangements in these related areas must be consistent.

Adjustment

4. There will be a better working of the adjustment process in which adequate methods to assure timely and effective balance of payments adjustment by both surplus and deficit countries will be assisted by improved international consultation in the Fund, including the use of objective indicators. To this end:

(a) Countries will take such prompt and adequate adjustment action, domestic or external, as may be needed to avoid protracted payments imbalances. In choosing among different forms of adjustment action, countries will take into account repercussions on other countries as well as internal considerations.

(b) Countries will aim to keep their official reserves within limits which will be internationally agreed from time to time in the Fund and which will be consistent with the volume of global liquidity. For this purpose reserve indicators will be established on a basis to be agreed in the Fund. Possible operational provisions in connection with reserve indicators, with an illustrative scheme, are discussed in Annex 1.

(c) Countries will apply adjustment measures in a manner designed to protect the net flow of real resources to developing countries, so as to help achieve any internationally agreed resource transfer targets that they have adopted. Deficit countries in designing their adjustment measures will seek so far as possible not to reduce the access of developing countries and international development finance institutions to their financial markets, nor to reduce the volume of official development assistance or harden its terms and conditions. Surplus countries, particularly those that are not meeting internationally agreed resource transfer targets that they have adopted, will seek so far as possible to increase aid and relax any restrictions on the access of developing countries and international development finance institutions to their financial markets.

5. Fund consultation and surveillance regarding the adjustment process will take place at two levels, the Executive Board and the Council to be established under paragraph 31, as follows:

(a) The Council will oversee the continuing operation of the adjustment process. In this connection the Council will at regular intervals review developments in world payments and liquidity and the aggregate net flow of real resources to developing countries. In addition, it may examine particular cases of imbalance which in the light of their international repercussions are referred to it by the Executive Board or are considered by the Council to be of special significance.

(b) The Executive Board will at regular intervals:

(i) survey the world payments situation in relation both to the general working of the adjustment process and to developments affecting global liquidity, with periodic consideration of balance of payments aims;

(ii) review the aggregate net flow of real resources to developing countries and its financing, and the consistency of countries' balance of payments aims and policies with any internationally agreed resource transfer targets that they have adopted; and

(iii) examine particular cases of imbalance that have significant international repercussions.

The Executive Board will as appropriate report to the Council on these matters.

6. Countries will become subject to examination under paragraph 5(b) (iii) if either:

(a) there has been a disproportionate movement in their official reserves; or
(b) in the judgment of the Managing Director, following informal soundings among Executive Directors, there is prima facie evidence that a country is facing significant imbalance, even though this is not indicated by a disproportionate movement in its reserves.

7. In the process of examination under paragraph 5(b) (iii), representatives of the country will be expected to comment on the country's economic prospects, including particularly its basic balance of payments position and prospects, on its external objectives, and on what domestic or external action, if any, it has taken or intends to take. An assessment by the Executive Board will establish whether there is a need for adjustment. In making its assessment, the Executive Board will take account of all relevant considerations, including the factors mentioned above; it will examine the consistency of the country's reserve and current account aims and policies with those of other countries, and will attach major importance to disproportionate movements of reserves. Account will be taken of the special characteristics of developing countries that make it difficult for them to achieve prompt adjustment without seriously damaging their long-term development programs. Following an assessment the Executive Board will, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance. A country in choosing between different forms of policy will take account of views expressed in the course of the examination on the form and size of policy action.

8. The Fund will continue to hold its normal consultations with member countries. In the course of these consultations the Executive Board will, inter alia, assess the country's payments performance on the same basis as in paragraph 7 and taking into account the factors mentioned there, and will, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance if it has not previously been so called upon under paragraph 7.

9. It is agreed that in the adjustment procedures described above separate arrangements will need to be made for a limited number of countries with large reserves deriving from depletable resources and with a low capacity to absorb imports.

10. Normally the provisions of paragraphs 7 and 8 for assessment supported by reserve indicators would be expected to lead to appropriate adjustment action. If they do not do so the Fund will have available graduated pressures to be applied to countries in large and persistent imbalance, whether surplus or deficit. The possibility of the activation of such pressures could of itself encourage timely and effective adjustment action. In considering the application of pressures the Fund will take into account the factors mentioned in paragraph 7. The possible forms and methods of activation of graduated pressures are set out in Annex 2.

The exchange rate mechanism

11. In the reformed system exchange rates will continue to be a matter for international concern and consultation. Competitive depreciation or undervaluation will be avoided. The exchange rate mechanism will remain based on stable but adjustable par values, and countries should not make inappropriate par value changes. On the other hand, countries should, whether in surplus or deficit, make appropriate par value changes promptly. Changes in par values will continue to be subject to Fund approval. The Fund may establish simplified procedures for approving small par value changes under appropriate safeguards.

12. Countries will undertake obligations to maintain specified maximum exchange rate margins for their currencies, except when authorized to adopt floating rates. The Fund will be empowered to vary the specified maximum margins on a qualified majority. It is agreed that it would be desirable that the system of exchange margins and intervention should be more symmetrical than that which existed in practice under the Bretton Woods system. Two possible approaches to a more symmetrical intervention system are discussed in Annex 3.

13. Countries may adopt floating rates in particular situations, subject to Fund authorization, surveillance and review. Such authorization will relieve a country of its obligations with regard to the maintenance of specified margins men-

tioned in paragraph 12. Such authorization will be given in accordance with provisions to be agreed, on condition that the country undertakes to conform with agreed guidelines for conduct. Guidelines will also be established for intervention by other countries in a floating currency. Authorization to float may be withdrawn if the country fails to conform with the guidelines for conduct, or if the Fund decides that continued authorization to float would be inconsistent with the international interest. Possible provisions for the authorization of floating and guidelines for floating are discussed in Annex 4.

Controls

14. There will be a strong presumption against the use of controls on current account transactions or payments for balance of payments purposes. In this connection arrangements will be made for continuing close coordination between the Fund and GATT.

15. Countries will not use controls over capital transactions for the purpose of maintaining inappropriate exchange rates or, more generally, of avoiding appropriate adjustment action. Insofar as countries use capital controls, they should avoid an excessive degree of administrative restriction which could damage trade and beneficial capital flows and should not retain controls longer than needed. Such controls should be applied without discrimination except as stated in paragraph 16; in this connection appropriate recognition will be given to the special position of countries that maintain close financial ties or that establish an economic and monetary union among themselves.

16. Wherever possible developing countries will be exempted from controls imposed by other countries, particularly from import controls and controls over outward long-term investment. The special circumstances of developing countries will be taken into account by the Fund in assessing controls which these countries feel it necessary to apply. In addition, developed countries should seek to remove legal, institutional and administrative obstacles to the access of developing countries to their financial markets. For their part, developing countries should seek to avoid policies which would discourage the flow of private capital to them.

Disequilibrating capital flows

17. Countries will cooperate in actions designed to limit disequilibrating capital flows and in arrangements to finance and offset them. Actions that countries might choose to adopt could include a more satisfactory degree of harmonization of monetary policies, subject to the requirements of domestic demand management; prompt adjustment of inappropriate par values, use of wider margins, and the adoption of floating rates in particular situations; and the use of administrative controls, including dual exchange markets and fiscal incentives. There will be improved consultation in the Fund on actions designed to limit disequilibrating capital flows, with the following objectives: first, to increase the effectiveness of such actions and to minimize harmful effects on third countries; and secondly, to avoid unnecessary proliferation and escalation of controls and the additional flows which might be prompted by anticipation thereof.

Convertibility, consolidation and the management of currency reserves

18. It is agreed that the basic objectives to be accommodated in the reformed convertibility system should be symmetry of obligations on all countries including those whose currencies are held in official reserves; the better management of global liquidity and the avoidance of uncontrolled growth of reserve currency balances; adequate elasticity; and as much freedom for countries to choose the composition of their reserves as is consistent with the overall objectives of the reform.

19. As part of the better international management of global liquidity, the aggregate volume of official currency holdings will be kept under international surveillance and management in the Fund. In this connection the Fund will take account of any necessary increase over time in official currency holdings in relation to the growth of international transactions and also of the special position of a limited number of countries with large reserves deriving from depletable resources and with a low capacity to absorb imports.

20. All countries maintaining par values will settle in reserve assets those official balances of their currencies which are presented to them for conversion. The Fund will establish appropriate arrangements to ensure sufficient control over

the aggregate volume of official currency holdings. Alternative approaches to the control of official currency holdings are discussed in Annex 5.

21. Elasticity within the settlement system, particularly to finance disequilibrating capital flows, may be provided by credit facilities, including Fund credit and official bilateral or regional short-term credit. The Fund may establish as necessary new credit facilities to assist countries exposed to disequilibrating capital flows, particularly those without sufficient access to bilateral or regional credit. The establishment and use of bilateral and regional credit facilities will be reported to the Fund. The extent to which credit facilities are used would be taken into account by the Managing Director for the purpose of paragraph 6(b). Additional forms of elasticity that have been suggested are set out in Annex 6.

22. The Fund will, as necessary, make provision for the consolidation of reserve currency balances to protect the future convertibility system against net conversion of any overhang of such balances which may exist at the restoration of general convertibility, and to ensure that the issuers of the currencies concerned will be able to acquire reserve assets when in surplus and will not lose reserve assets beyond the amount of any future official settlements deficits. For this purpose, and also to permit countries that wish to do so to exchange official currency holdings for SDRs, the Fund will have authority to establish a Substitution Account. Possible operational provisions of a Substitution Account with an illustrative scheme are discussed in Annex 7. In addition, the Fund may also assist those countries that desire to negotiate bilateral funding of currency balances.

23. Countries will cooperate in the management of their currency reserves so as to avoid disequilibrating movements of official funds. Among the possible provisions for achieving this objective, the following have been suggested but are not agreed:

(a) Countries should respect any request from a country whose currency is held in official reserves to limit or convert into other reserve assets further increases in their holdings of its currency.

(b) Countries should periodically choose the composition of their currency reserves and should undertake not to change it without prior consultation with the Fund.

(c) Countries should not add to their currency reserve placements outside the territory of the country of issue except within limits to be agreed with the Fund.

Primary reserve assets

24. The SDR will become the principal reserve asset and the role of gold and of reserve currencies will be reduced. The SDR will also be the *numeraire* in terms of which par values will be expressed.

25. As part of the better international management of global liquidity, the Fund will allocate and cancel SDRs so as to ensure that the volume of global reserves is adequate and is consistent with the proper functioning of the adjustment and settlement systems. In the assessment of global reserve needs and the decision-making process for SDR allocation and cancellation the Fund will continue to follow the existing principles as set out in the Articles of Agreement. However, it is agreed that the methods of assessing global reserve needs must remain the subject of study, and it has been suggested that they may need to give additional emphasis to a number of economic factors, as discussed in Annex 8.

26. The effective yield on the SDR will be high enough to make it attractive to acquire and hold, but not so high as to make countries reluctant to use the SDR when in deficit. The value of the SDR in transactions against currencies will be determined in such a way as to protect the capital value of the SDR against depreciation. Possible techniques for determining the value of the SDR in transactions against currencies are discussed in Annex 9. The interest rate on the SDR will be set from time to time by the Executive Board in such a way as to maintain an appropriate effective yield, in the light of changing market interest rates.

27. In the light of the agreed objective that the SDR should become the principal reserve asset, consideration will be given to revising the rules governing its use with a view to relaxing existing constraints. The suggestions for relaxation that have been made include:

(a) abolition of the limits on acceptance obligations and of the reconstitution obligation;
(b) some relaxation of the requirement of need for the use of SDRs;
(c) authority for willing partners to enter into transactions in SDRs without designation by the Fund;
(d) authorization for the General Account to accept or use SDRs in all transactions and operations in which it can accept or use gold or currencies;
(e) authorization for the Fund to designate any official international or regional institution of a financial character as a holder of SDRs;
(f) authorization for the Fund to permit additional types of transactions and operations in SDRs; and
(g) authorization for the Fund to modify the provisions on opting out of decisions to allocate SDRs.

Consideration will be given to other aspects of the SDR, including its name, with a view to promoting public understanding.

28. Appropriate arrangements will be made for gold in the reformed system, in the light of the agreed objectives that the SDR should become the principal reserve asset and that the role of gold should be reduced. At the same time it is also generally recognized that gold reserves are an important component of global liquidity which should be usable to finance balance of payments deficits. It is not yet settled what arrangements for gold would be best in the reformed system, having due regard to the interests of all member countries. Under one approach, monetary authorities, including the Fund, would be free to sell, but not to buy, gold in the market at the market price; they would not undertake transactions with each other at a price different from the official price, which would be retained and would not be subject to a uniform increase. Under another approach, the official price of gold would be abolished and monetary authorities, including the Fund, would be free to deal in gold with one another on a voluntary basis and at mutually acceptable prices, and to sell gold in the market. A third approach would modify the preceding one by authorizing monetary authorities also to buy gold in the market. Arrangements have also been proposed whereby the Fund would be authorized to purchase gold from monetary authorities in exchange for SDRs at a price between the market and the official price, and to sell gold gradually over time in the market; if arrangements of this kind were introduced, questions would arise concerning both the Fund's policy with respect to its sales in the market, and the sharing of any profits or losses accruing to the Fund from its gold transactions.

The link and credit facilities in favor of developing countries

29. In the light of the agreed objective to promote economic development, the reformed monetary system will contain arrangements to promote an increasing net flow of real resources to developing countries. Such arrangements are further discussed in Annex 10, which deals with the special interests of developing countries. If these arrangements were to include a link between development assistance and SDR allocation, this could take one of the following forms:

(a) A link would be established between development finance and SDR allocation, the total volume of which allocation will be determined exclusively on the basis of global liquidity needs. This link would take the form of the direct distribution to developing countries of a larger proportion of SDR allocations than they would receive on the basis of their share in Fund quotas. Link resources so allocated would be distributed to all developing countries in such a way as to be relatively favorable to the least developed countries.

(b) A link would be established between development finance and SDR allocation, the total volume of which allocation will be determined exclusively on the basis of global liquidity needs. This link would take the form of direct allocation to international and regional development finance institutions of a predetermined share of SDR allocations. Link resources distributed to development finance institutions would be disbursed to developing countries on the basis of development need and in such a way as to be relatively favorable to the least developed countries. The use of link funds by development finance institutions, including their distribution and terms, would reflect the nature and purpose of these resources.

30. It is envisaged that there will be a new facility in the Fund, under which developing countries would receive longer-term balance of payments finance.

The institutional structure of the Fund

31. A permanent and representative Council, with one member appointed from each Fund constituency, will be established. The Council will meet regularly, three or four times a year as required, and will have the necessary decision-making powers to supervise the management and adaptation of the monetary system, to oversee the continuing operation of the adjustment process and to deal with sudden disturbances which might threaten the system. The Managing Director will participate in meetings of the Council.

Part II: Immediate Steps

32. It is recognized that, as stated in the Preface to this *Outline*, it will be some time before a reformed system can be finally agreed and fully implemented. In the interim period, the Fund and member countries will pursue the general objectives set out in paragraph 1, and will observe, so far as they are applicable, the principles contained in Part 1 of this *Outline*. It is proposed that a number of steps should be taken immediately, to begin an evolutionary process of reform, and to help meet the current problems facing both developed and developing countries.

33. The Council referred to in paragraph 31 will be established as soon as practicable. In the meantime an Interim Committee of the Board of Governors will be created, with an advisory role in the areas in which the Council is to have decision-making powers, and with similar composition and procedures. This Committee will come into being when the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work.

34. During the interim period, with significant changes in prospect for the world balance of payments structure, there is an evident need for close international consultation and surveillance of the adjustment process. Countries will be guided in their adjustment action by the general principles set out in paragraph 4. During the current period of exceptional and widespread payments imbalances, they will cooperate with one another and with international institutions to find orderly means to deal with these imbalances without adopting policies that would aggravate the problems of other countries, and to promote equilibrating capital flows: in this connection a facility will be established in the Fund to assist member countries in meeting the initial impact of the increase in oil import costs. The Fund will exercise surveillance of the adjustment process through the Council (or, for the time being, the Interim Committee of the Board of Governors) and the Executive Board, on the lines of the procedures set out in paragraphs 5–10, and subject for the time being to the following provisos, namely that:

(a) the Fund will seek to gain further experience in the use of objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but will not use such indicators to establish any presumptive or automatic application of pressures;

(b) determination of what is a disproportionate movement in reserves will be made in the light of the broad objectives of member countries for the development of their reserves over a period ahead, as discussed with the Fund; and

(c) the pressures which may be applied to countries in large and persistent imbalance will continue to be those at present available to the Fund.

35. During the interim period, exchange rates will continue to be a matter for international concern and consultation, and competitive depreciation or undervaluation will be avoided. For these purposes, during the present period of widespread floating, countries will be expected in their intervention and other policies to follow guidelines on the lines of section B of Annex 4 and be subject to surveillance in the Fund as there described.

36. During the interim period, countries will be guided by the principles set out in paragraphs 14–17 in relation to controls and to cooperative action to limit disequilibrating capital flows. Particular importance will be attached during the interim period to avoiding the escalation of restrictions on trade and payments for balance of payments purposes. To this end, member countries of the Fund will be invited to pledge themselves on a voluntary basis, in addition to observing their obligations with respect to payments restrictions under the Fund's Articles, for a period of two years, not to introduce or intensify trade or other current

account measures for balance of payments purposes without a finding by the Fund that there is balance of payments justification for such measures.[1] In this connection arrangements will be made for continuing close coordination between the Fund and GATT.

37. (a) Countries will cooperate with the Fund during the interim period in seeking to promote the principle of better management of global liquidity as set out in paragraph 2(d). The Fund will assess global reserves and take decisions on the allocation and cancellation of SDRs in accordance with paragraph 25. The Fund will periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 and, if they are judged to show an excessive increase, will consider with the countries concerned what steps might be taken to secure an orderly reduction.

(b) The Fund will also give consideration to substitution arrangements and examine whether an amendment of the Articles of Agreement would be desirable in this connection.

(c) There will be further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

38. It is agreed that in present circumstances, and without prejudice to the method of valuation to be adopted in a reformed system, the valuation of the SDR will be based on a basket of currencies in accordance with the "standard basket" technique described in Section A, paragraph 1, of Annex 9, and that the rate of interest will be determined periodically by the Executive Board in the light of changing market interest rates. This arrangement will be reviewed by the Fund two years after it comes into operation.

39. In view of the serious difficulties that are facing many developing countries, it is agreed that their needs for financial resources will be greatly increased and that all countries with available resources should make every effort to supply these needs on appropriate terms. To this end countries with available resources and development finance institutions should make arrangements to increase the flow of concessionary funds, and should give consideration to various measures including the redistribution of aid effort in favor of countries in greatest need, interest subsidies, and short-term debt relief on official loans in the special case of countries without access to financial markets. The Committee is not unanimous on the question of establishing a link between development assistance and SDR allocation. The Committee is agreed that the Interim Committee should reconsider, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board of Governors by February 1975, the possibility and modalities of establishing such a link. The Executive Board is urged to proceed to an early formulation and adoption of an extended Fund facility as referred to in paragraph 30. It is recommended that a joint ministerial Committee of the Fund and World Bank should be established, to carry forward the study of the broad question of the transfer of real resources to developing countries after the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work, and to recommend measures to be adopted in order to implement its conclusions. It is further recommended that the joint ministerial Committee should give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies, and that preparatory work on this aspect should be started immediately, in advance of the establishment of the Committee.

40. The Executive Board will consider possible changes in the General Account and in the rules governing the use of SDRs appropriate for the interim period. The Executive Board will complete the current general review of Fund quotas as soon as possible, bearing in mind the general purposes of the reform.

41. The Executive Board is asked to prepare draft amendments of the Articles of Agreement, as need to give effect to this Part of the *Outline* or as otherwise desired, for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular draft amendments should be prepared on the following proposals:

(a) to establish the Council referred to in paragraph 31;

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[1] See exhibit 70.

(b) to enable the Fund to legalize the position of countries with floating rates during the interim period;
(c) to give permanent force to the voluntary pledge described in paragraph 36 concerning trade or other current account measures for balance of payments purposes;
(d) to authorize the Fund to establish, as and when agreed, a Substitution Account;
(e) to amend the present provisions concerning gold;
(f) to authorize the Fund to implement a link between development assistance and SDR allocation; and
(g) to introduce improvements in the General Account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at latest by the date fixed for completion of the current general review of Fund quotas, i.e., by February 1975.

ANNEXES

As stated in the Preface to the Outline, a number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the following Annexes, which have been prepared by the Chairman and Vice-Chairmen of the Deputies to record the state of the discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation.[1]

The Annexes are as follows:

Annex 1	Reserve indicators: possible operational provisions with an illustrative scheme.
Annex 2	Pressures: possible forms and methods of activation
Annex 3	Exchange margins and intervention: possible operational provisions with illustrative schemes
Annex 4	Floating in particular situations: possible operational provisions
Annex 5	Control over the aggregate volume of official currency holdings: possible operational provisions with illustrative schemes
Annex 6	Elasticity: possible additional forms
Annex 7	A Substitution Account: possible operational provisions with an illustrative scheme
Annex 8	SDR allocation and cancellation: possible operational provisions
Annex 9	Valuation of the SDR: possible operational provisions
Annex 10	The special interests of developing countries

Annex 1: Reserve indicators: possible operational provisions with an illustrative scheme

It is agreed that a better working of the adjustment process is to be assisted by the use of objective indicators. In particular, reserve indicators will be established on a basis to be agreed in the Fund, for the purpose stated in paragraph 4(b) of the *Outline.*

A number of questions concerning reserve indicators remain unresolved. These include whether they should relate to the level of reserves (a stock indicator) or to changes in reserves (a flow indicator). If a stock indicator were adopted, there is a question as to how reserve norms (i.e., target levels of reserves) for individual countries would be chosen. In the case of either a stock or a flow indicator, it would have to be decided whether reserves were to be measured gross or net of reserve liabilities. Precise definitions of assets and liabilities and reporting requirements would need to be settled. There is also a major unresolved question as to whether there should be any link between reserve indicators and the presumptive or automatic activation of pressures.

[1] Throughout the Annexes, references occur to further information on specific issues in reports by the Technical Groups that studied them. These reports are to be published in the future by the Bureau of the Deputies of the Committee of Twenty. When published, these reports will be available from the IMF.

More generally, it is recognized that, in the absence of operational experience, it is difficult to judge how arrangements involving the use of reserve indicators would work in practice. Particular reservations have been expressed concerning the possible effects of the use of reserve indicators on market expectations regarding exchange rates. (For a fuller discussion of reserve indicators, see the Reports of the Technical Groups on Indicators, and on Adjustment.)

A. Definitions

1. A "reserve indicator" is a measure of reserves on either a stock or a flow basis. A "reserve indicator structure" is a set of specified points or reserve levels. When one of the points in the structure was reached by the reserve indicator it would serve as a signal that a sizable imbalance existed which might require examination or the application of pressures. Whether the results shown by a flow and a stock indicator differed greatly would depend, inter alia, on whether the flow indicator measured changes in reserves continuously or whether the measure of the flow was interrupted under specified conditions. An interrupted flow indicator would call attention to payments imbalances as they occurred, whereas a stock indicator or a continuous flow indicator would, in addition, call attention to a developing imbalance in the distribution of reserves among countries. The illustrative scheme for a reserve indicator structure given below is based on a stock indicator.

2. Reserve assets for the purposes of the indicator could consist of official holdings of SDRs, reserve positions in the Fund, gold and foreign exchange. The latter includes claims of all types that would normally be used to finance payments deficits. Claims that would not normally be so used (e.g., trade credits and development loans) would not be included. Information required for the determination of reserves of all members would be reported to the Fund within a specified period after the end of each month. The location of deposits and the currency of denomination might also need to be reported.

3. Reserve liabilities, which would be used to compute a partial or total net reserve indicator, could consist of all liabilities of the public or private sector that are included in the reserves of other countries; net debtor positions in the Fund; and also any liabilities to a Substitution Account or to an Excess Reserves Account (see Annex 2, section A(ii)) that may be established in the Fund. Reserve liabilities would not include certain liabilities of the private sector that are denominated in foreign currency (e.g., Euro-currency deposits).

4. In the illustrative scheme of a reserve indicator structure that follows, the reserve indicator for each country would be equal to reserve assets adjusted for cumulative changes in its reserve liabilities from the time of the implementation of the scheme. Hence, a country's reserve indicator would always differ from its net reserves by the amount of its reserve liabilities at the time of implementation. Alternatively reserves could be measured gross, i.e., without deducting liabilities. Insofar as official currency liabilities were small or did not vary much, the difference between the two measures would also be small. Conversely, the difference between a gross and net indicator would be significant insofar as official currency liabilities showed a sizable movement.

B. Illustrative scheme

Reserve indicator structure

1. Provision would be made for the establishment of reserve norms in accordance with paragraphs 3–5 below and for the following reserve indicator points:

(*a*) *Consultation points* For the purpose of paragraph 6(a) of the *Outline*, the Fund could establish consultation points above and below the reserve norm which would be closer to the norm than the "first points" described below.

If it were decided to have pressures activated presumptively or automatically on the basis of a reserve indicator structure, the following indicator points with the functions described would be established.

(*b*) *First point above the norm* At this level for the reserve indicator, a country in surplus would become subject to examination if it were not already under examination. After a specified period during which its reserve indicator remained at or above this level, a country would be subject to pressures in accordance with section B, paragraphs 3–4, of Annex 2, unless the Council or Executive Board, as appropriate, decided, or had already decided, to override the indicator's signal.

(c) *Second point above the norm* At this level for the reserve indicator, further above the norm than the first point, a country would be obliged to deposit all further accruals of reserves with the Fund and to forfeit all interest earned on the deposited reserves in accordance with section B paragraph 5 of Annex 2.

(d) *First point below the norm* At this level for the reserve indicator, a country in deficit would become subject to examination if it were not already under examination. After a specified period during which its reserve indicator remained at or below this level, a country would be subject to pressures in accordance with section B, paragraphs 3–4, of Annex 2, unless the Council or Executive Board, as appropriate, decided, or had already decided, to override the indicator's signal.

2. If it were decided to adopt a primary asset holding limit as described in Annex 6, another point in the indicator structure would be required, which would relate to the level of primary reserve assets rather than total reserves.

Placement of norms and indicator points

3. Temporary norms equal to actual reserves on a date to be agreed would be established. As soon as feasible, longer-run norms, reflecting more appropriately than existing reserves the relative reserve needs of countries and summing to the agreed total of global reserves, would be established by international agreement in the Fund. (Further examination will be given to the desirability of basing norms on objective criteria and/or historical reserve holdings.) Countries that considered their resulting norm to be inappropriate to their circumstances would be able to present their cases for revision to the Fund.

4. Over time, reserve changes in the direction of longer-run norms would be encouraged. As a country's reserves moved from the temporary norm toward the longer-run norm, the temporary norm and indicator points would be adjusted accordingly.

5. Both longer-run and temporary norms for each country would be increased by the amount of its SDR allocations. Provision would also be made for changing norms in line with agreed changes in currency reserves over time. In addition, the norms of individual countries would be subject to periodic revision to reflect changes in the relative economic size of countries.

6. The reserve indicator points for each country would be established at specified distances from the temporary, and ultimately from the longer-run, norm, so as to maintain consistency between potential imbalances, the volume of reserves, and the operations of the convertibility system. Indicator points would be related to norms or to an objective key that reflects countries' relative reserve variability. Distances would then be specified as multiples of norms or of the key, plus a small constant amount to provide additional flexibility in cases which would not normally have significant international repercussions. The key would be subject to periodic recomputation and revision by the Fund.

Participation

7. All countries would have defined norms and reserve indicator points. Countries whose exports of depletable resources account for more in value (after adjusting for value added in extraction, processing, and shipping) than the value of their current net domestic capital formation would be permitted to exclude foreign exchange holdings from their reserve indicator. Such holdings would similarly be excluded from the issuing country's reserve liabilities.

Other reporting requirements

8. Additional data would be periodically required to supplement the reserve indicator as a check against its performance, and as further material for assessment, including judgments to override the reserve indicator. Such data might include the forward position of a country's monetary authority (to be reported in confidence to the Managing Director), and foreign assets and liabilities of deposit money banks and other financial institutions to be specified. The Fund could also request additional data, e.g., the foreign assets or liabilities of governmental institutions.

Annex 2: Pressures: possible forms and methods of activation

It is generally agreed that provision should be made for graduated pressures in the reformed system to be available to the Fund for application to both surplus and deficit countries in cases of large and persistent imbalance. It is not agreed what forms these pressures should take; in particular it is not agreed whether there should be severer forms of pressure such as trade pressures and the publication of reports. Nor is it agreed how such pressures should be activated, and in particular whether some pressures should be activated presumptively or automatically on the basis of reserve indicators as in section B below. (For a fuller discussion of pressures, see the Report of the Technical Group on Adjustment.)

A. Forms

Forms of pressure which have been suggested for the reformed system include the following:

Pressures that could be applied to countries in surplus

(*i*) A country could be subjected to a charge on reserve accumulations above a reserve norm or other specified level. The rate of charge could be graduated with respect to the size of the reserve accumulation and the duration of the imbalance.

(*ii*) Countries could be required to deposit reserves above a specified level with an Excess Reserves Account to be established in the Fund at zero interest. This pressure combined with the preceding one would amount to the payment of negative interest on excess reserve accumulations.

(*iii*) All or part of future SDR allocations of a country in surplus could be withheld for a specified or an indefinite period.

(*iv*) A report could be published on the external position and policies of a country in surplus.

(*v*) Countries could be authorized to apply discriminatory trade and other current account restrictions against countries in persistent large surplus, subject to any necessary modification in the rules or practices of the GATT. This would be the most extreme form of pressure on countries in surplus.

Pressures that could be applied to countries in deficit

(*vi*) A country could be subjected to a charge on reserve deficiencies below a reserve norm or other specified level. The rate of charge could be graduated with respect to the size of the deficiency and the duration of the imbalance.

(*vii*) The interest rate charged on borrowings from the Fund could be raised above the general schedule of charges.

(*viii*) A country's access to the resources of the Fund could be restricted.

(*ix*) All or part of future SDR allocations of a country in deficit could be withheld for a specified or an indefinite period.

(*x*) A report could be published on the external position and policies of a country in deficit.

B. Methods of activation

Three possible methods of activation of pressures have been considered: discretionary activation by a positive decision of the Fund, and presumptive or automatic activation on the basis of reserve indicators. These methods of activation, and the forms of pressure to which they are relevant, are discussed in the following paragraphs.

Activation by a positive Fund decision

1. As regards discretionary activation, it would be possible for the Fund to decide to apply any of the pressures described in A above if, following an examination under paragraph 7 of the *Outline*, it was found that a country that had previously been called upon to adopt or reinforce policies to correct an imbalance had failed to take appropriate action. Initial pressures would be of a mild form, but if the imbalance persisted and the country still failed to take appropriate action more severe pressure could be applied.

2. Authority to apply pressures by positive decision of the Fund would rest with the Council. This authority might, however, be delegated to the Executive Board, except in the case of the pressure mentioned in A(v) above. Where any pressure had been applied to a country by decision of the Executive Board acting under such delegated authority, the country against which the pressure had been applied would have the right to appeal to the Council against continued application of that pressure.

Presumptive activation

3. If it were decided that some pressures might also be activated presumptively on the basis of a reserve indicator structure, such activation could be developed on the following lines. The pressures described in A(i) and (vi) above could begin to be applied to a country whose reserves had remained for a specified period beyond the first reserve indicator point either above or below the norm as described in Annex 1, unless the Council or the Executive Board, as appropriate, following an examination under paragraph 7 of the *Outline*, decided, or had already decided, that such pressures should not be applied.

4. The charges, when applied, could be computed on the basis of the accumulation of reserves above the norm for countries in surplus and on the basis of the shortfall of reserves below the norm for countries in deficit. A schedule of charges would be established that could be progressive with respect to the size of such deviations and their duration.

Automatic activation

5. It has been proposed that the pressure described in A(ii) above could be automatically applied to a country in surplus whose reserves increased beyond the second reserve indicator point above the norm as described in Annex 1. The Fund would pay no interest on the balances deposited and would return those balances to the country only as the country's total reserves declined. The pressure combined with the pressure described in A(i) above would amount to the payment of negative interest on excess reserve accumulations.

C. Discontinuation of pressures

Appropriate provisions would have to be made for pressures to be discontinued as the imbalance was corrected.

Annex 3: Exchange margins and intervention: possible operational provisions with illustrative schemes

Arrangements for a more symmetrical system of exchange margins and intervention might be developed on the lines of either of the systems illustrated below or some variant of them. (For a fuller discussion of these questions, see the Report of the Technical Group on Intervention and Settlement.) In both the illustrations it is assumed that the maximum margins specified under paragraph 12 of the *Outline* would be 2¼ percent on either side of par value expressed in terms of the SDR, implying that at any one time the rate of exchange between any pair of currencies should be maintained within a range of not more than 4½ percent above or below parity.[1] The maximum margins to be adopted at the time when the chosen system of exchange margins and intervention is actually implemented would need to be decided in the light of conditions prevailing at that time.

A. A system based on multicurrency intervention

1. Under a margins and intervention system based on multicurrency intervention [MCI] the general obligation under paragraph 12 of the *Outline* would be for a country to maintain the spot exchange rate for its currency within specified maximum margins of up to 4½ percent on either side of parity against other currencies.

2. A number of countries (including those whose currencies were the most widely traded in world foreign exchange markets) would meet their obligations under paragraph 12 of the *Outline* by undertaking reciprocal responsibility to maintain the spot exchange rate for their currencies (the MCI currencies) within maximum margins of 4½ percent above or below parity against each other by intervening in each other's currencies at the margins. For this purpose they would publish mutually consistent limit prices at which they would be prepared freely either to buy, or to sell, or to both buy and sell, each other's currencies.

3. Other countries would meet their obligations under paragraph 12 of the *Outline* by undertaking a unilateral responsibility freely to buy and sell a single intervention currency, which should normally be an MCI currency, at margins of not more than 2¼ percent on either side of parity.

[1] The parity of one currency with respect to another refers to the ratio of their par values.

4. Other countries, which in the evolution of their exchange market and intervention practices had reached an intermediate position, could meet their obligations under paragraph 12 of the *Outline* in either of the following ways:

(a) Countries which wished to intervene in more than one MCI currency could undertake a unilateral responsibility to maintain their exchange rates within maximum margins specified in relation to their intervention currencies. Specifically they could undertake either freely to buy the weakest and sell the strongest of their named intervention currencies at margins of 2¼ percent on either side of the arithmetic mean between the weakest and strongest of those currencies or, if they wished to intervene in all or nearly all the MCI currencies, freely to buy and sell their named intervention currencies at margins of 4½ percent on either side of parity.

(b) Countries which wished to intervene in one or more MCI currency could undertake a unilateral responsibility to maintain their exchange rates within maximum margins specified in relation to the MCI currencies as a whole. Specifically they could undertake freely to buy the weakest and sell the strongest of their named intervention currencies at margins of either 2¼ percent, or 3¼ percent, on either side of the arithmetic mean between the weakest and strongest MCI currencies, or at margins of 4½ percent on either side of parity against each MCI currency.

5. Countries would be entitled to enter into arrangements, e.g., regional arrangements, to maintain margins among themselves narrower than the maximum prescribed under paragraph 12 of the *Outline*, provided that such arrangements and their general rules were notified to the Fund to assure their consistency with Fund obligations.

6. Countries undertaking the obligations under paragraph 2 above would not intervene intramarginally in each other's currencies except in accordance with rules on the following lines:

(a) Intramarginal intervention should not take place without the agreement, normally to be obtained in advance, of the country whose currency was to be used for intervention.

(b) Intramarginal intervention should not widen the spread between the two currencies concerned.

(c) The further the two currencies concerned were away from their margins against each other, the stronger the presumption against intramarginal intervention.

(d) Where a country undertook intramarginal intervention, it should normally do so in the currency furthest from parity with its own currency.

(e) Information about intramarginal intervention should be available through the Fund (with proper regard for confidentiality) to third countries, so that they could make representations if they felt their own position to be damaged.

7. Countries meeting their margins obligations in accordance with paragraphs 3 and 4 above would choose their intervention currency or currencies in consultation with the issuers; these consultations would aim to arrive at understandings covering standing arrangements for intramarginal intervention but would not impose any limitation upon a country's intervention to maintain its margins obligations. Where a country had an effective choice of intervention currency for intramarginal intervention, it should preferably buy the weakest and sell the strongest of its intervention currencies.

8. The Fund would keep the operation of the arrangements with respect to margins and intervention, including intramarginal intervention, under continuous review. In particular, participation in arrangements under paragraph 2 above would be subject to a special review within an agreed period (e.g., two years) from their introduction. Countries would cooperate with the Fund to ensure that appropriate intervention facilities were available to all member countries, and the Fund would help in establishing a standard framework of rules or guidelines as a basis for the understandings referred to in paragraph 7 above.

B. A system based on SDR intervention

1. Under a margins and intervention system based on SDR intervention the general obligation under paragraph 12 of the *Outline* would be for a country freely to buy and sell SDRs against its own currency at 2¼ percent on either

side of par value in transactions directly with monetary authorities, or in transactions with commercial banks on condition that the SDRs were to be transferred directly to or from other monetary authorities. This would be designed to ensure that the exchange rates between any two currencies did not diverge by more than 4½ percent from parity. Countries undertaking this obligation would not generally intervene in currencies at the margins. They might intervene intramarginally in SDRs, subject to any rules which might be agreed, and also in currencies, subject to rules such as those set out in paragraph 6 of the system described in section A above.

2. Countries which remained closely attached to a single intervention currency, which should normally be a currency undertaking the obligations in paragraph 1 above, could meet their obligations under paragraph 12 of the *Outline* by undertaking freely to buy and sell that currency at margins of not more than 2¼ percent on either side of parity.

3. Countries meeting their margins obligations in accordance with paragraph 2 above would choose their intervention currency in consultation with the issuer; these consultations would aim to arrive at understandings covering standing arrangements for intramarginal intervention, but would not impose any limitation upon a country's intervention to maintain its margins obligations.

4. Countries would be entitled to enter into arrangements, e.g., regional arrangements, to maintain margins among themselves narrower than the maximum prescribed in paragraph 12 of the *Outline*, provided that such arrangements and their general rules were notified to the Fund to assure their consistency with Fund obligations.

5. The Fund would keep the operation of the arrangements with respect to margins and intervention, including intramarginal intervention, under continuous review. Countries would cooperate with the Fund to ensure that appropriate intervention facilities were available to all member countries, and the Fund would help in establishing a standard framework of rules or guidelines as a basis for the understandings referred to in paragraph 3 above.

Annex 4: Floating in particular situations: possible operational provisions

A. Authorization

The criteria and procedures in accordance with which, in the reformed system, the Fund will authorize countries to adopt floating rates in particular situations are not agreed. An illustrative example is set out below. Under another, more liberal approach, a country might propose to the Fund the adoption of a floating rate for its currency, and provided that the country undertook to conform with agreed guidelines for conduct the Fund would approve such a proposal. Suggestions have also been made for a more restrictive approach than the one illustrated below, under which the Fund might authorize a country to float only if, inter alia, it was satisfied that the fixing or maintenance of a par value would be inconsistent with the international interest.

Illustrative example

1. The Fund would be empowered to authorize a country to adopt a floating exchange rate:

(a) if the Executive Board decided, after taking account of all the factors relevant to a country's particular situation, that floating would be consistent with the international interest and more likely to contribute to international payments equilibrium than an attempt to fix, or to continue to maintain, a par value; and

(b) provided that the country undertook to conform with agreed guidelines for conduct as discussed in sections B and C of this Annex.

2. In arriving at its decision under paragraph 1(a) above, the Executive Board would give special consideration to:

(a) conditions of particular uncertainty regarding the future development of the country's balance of payments, in which floating might facilitate transition to a new par value;

(b) very large disequilibrating capital flows; and

(c) a rate of price inflation which was, and which was expected to continue for some time to be, substantially different from that of the country's main trading partners or competitors.

3. The Fund might establish simplified procedures for authorizing the adoption of floating rates by a country whose official reserves were at inappropriate levels or had moved inappropriately, as determined by reference to a reserve indicator. If such simplified procedures did not require a prior examination of the country's particular situation by the Executive Board, they would provide for such examination within a specified period after authorization to adopt a floating rate was given.

B. Guidelines for countries authorized to adopt floating rates

Countries authorized to adopt floating rates would be guided by the same principles governing adjustment action as countries maintaining par values. In particular, in choosing among different forms of adjustment action, domestic or external, they would take into account repercussions on other countries as well as internal considerations. Countries authorized to adopt a floating exchange rate would be subject to surveillance in the Fund, in accordance with the procedures described in paragraphs 5–8 of the *Outline*; in this connection, a sizable movement in the exchange rate for a floating currency might be taken as prima facie evidence for the purpose of paragraph 6(b) of the *Outline*. Such countries would also, if appropriate, be liable to the pressures provided for in paragraph 10 of the *Outline*.

In relation to its policy for intervention in exchange markets, a country authorized to adopt a floating rate would observe guidelines designed to promote exchange market stability and the international consistency of policies affecting exchange rates and reserves. Guidelines for the reformed system will need to be developed by the Fund, taking account of experience in the interim period. The following guidelines for the interim period,[1] which provide the basis for a meaningful dialogue between the Fund and member countries with a view to promoting international consistency during a period of widespread floating, have been established as a starting point.

(1) A member with a floating exchange rate should intervene on the foreign exchange market as necessary to prevent or moderate sharp and disruptive fluctuations from day to day and from week to week in the exchange value of its currency.

(2) Subject to (3)(b), a member with a floating rate may act, through intervention or otherwise, to moderate movements in the exchange value of its currency from month to month and quarter to quarter, and is encouraged to do so, if necessary, where factors recognized to be temporary are at work. Subject to (1) and (3)(a), the member should not normally act aggressively with respect to the exchange value of its currency (i.e., should not so act as to depress that value when it is falling, or to enhance that value when it is rising).

(3)(a) If a member with a floating rate should desire to act otherwise than in accordance with (1) and (2) above in order to bring its exchange rate within, or closer to, some target zone of rates, it should consult with the Fund about this target and its adaptation to changing circumstances. If the Fund considers the target to be within the range of reasonable estimates of the medium-term norm for the exchange rate in question, the member would be free, subject to (5), to act aggressively to move its rate toward the target zone, though within that zone (2) would continue to apply.

(b) If the exchange rate of a member with a floating rate has moved outside what the Fund considers to be the range of reasonable estimates of the medium-term norm for that exchange rate to an extent the Fund considers likely to be harmful to the interests of members, the Fund will consult with the member, and in the light of such consultation may encourage the member, despite (2) above (i) not to act to moderate movements toward this range, or (ii) to take action to moderate further divergence from the range. A member would not be asked to hold any particular rate against strong market pressure.

(4) A member with a floating exchange rate would be encouraged to indicate to the Fund its broad objective for the development of its reserves over a period ahead and to discuss the objective with the Fund. If the Fund, taking account of the world reserve situation, considered this objective to be reasonable and if the member's reserves were relatively low by this standard, the member would be encouraged to intervene more strongly under (2) to moderate a movement in its

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[1] These gudelines have been adopted by IMF Executive Board Decision No. 4232–(74/67), adopted June 13, 1974. They are contained in a memorandum referred to in that Decision and should be understood in the light of the commentary in that memorandum.

rate when the rate was rising than when it was falling. If the member's reserves were relatively high by this standard it would be encouraged to intervene more strongly to moderate a movement in its rate when the rate was falling than when it was rising. In considering target exchange rate zones under (3), also, the Fund would pay due regard to the desirability of avoiding an increase over the medium term of reserves that were recognized by this standard to be relatively high, and the reduction of reserves that were recognized to be relatively low.

(5) A member with a floating rate, like other members, should refrain from introducing restrictions for balance of payments purposes on current account transactions or payments and should endeavor progressively to remove such restrictions of this kind as may exist.

(6) Members with a floating rate will bear in mind, in intervention, the interests of other members including those of the issuing countries in whose currencies they intervene. Mutually satisfactory arrangements might usefully be agreed between the issuers and users of intervention currencies, with respect to the use of such currencies in intervention. Any such arrangements should be compatible with the purposes of the foregoing guidelines. The Fund will stand ready to assist members in dealing with any problems that may arise in connection with them.

The Executive Board may decide to amend these guidelines in the light of experience or to adapt them to the circumstances of individual member countries, and in particular will give special consideration to the manner in which they should be applied by developing countries, taking account of the stage of evolution of their exchange markets and intervention practices.

C. The choice of intervention currency and settlement

In the reformed system it will be necessary to establish guidelines in relation to both the choice of intervention currency by a floating country and intervention by other countries in a floating currency, as well as arrangements for the settlement of balances of a floating currency acquired through intervention. Such guidelines might be developed on the following lines:

(a) A floating country which has an effective choice of intervention currencies should normally buy the weakest of those currencies and sell the strongest. If the country wishes to intervene in any other currency the agreement of the issuer would be required.

(b) Intervention by other countries in a floating currency should not take place (except possibly for smoothing operations on a limited scale to maintain orderly market conditions and other small transactions) without the agreement of the issuer.

(c) Where intervention in a floating currency takes place with the agreement of the issuer, the official balances arising out of such intervention will be subject to settlement in accordance with paragraph 20 of the *Outline*. Countries which intervened to buy a currency during a specified period (e.g., one working day) immediately before approval was requested for that currency to float will be entitled to present the balances acquired during that period to the issuer for conversion.

It is recognized that, in connection with (b) and (c) above, a special situation arises in the case of countries which regularly intervene in a currency that floats. It is envisaged that this situation would be covered by arrangements similar to those set out in section A paragraphs 7 and 8 of Annex 3.

Annex 5: Control over the aggregate volume of official currency holdings: possible operational provisions with illustrative schemes

The principle that the aggregate volume of official currency holdings should be kept under international surveillance and management in the Fund is generally agreed. Important questions concerning the arrangements to give effect to this principle, however, remain to be decided. (For a fuller discussion of these questions, see the Report of the Technical Group on Intervention and Settlement.) Appropriate arrangements might be developed on the lines of one of the three approaches illustrated below.

The main difference between the approaches in sections A and B concerns the precision with which they aim to secure international control over aggregate official currency holdings, which in turn would determine the degree of asset settlement by countries whose currencies are held in reserves. The more mandatory system in section A involves international agreement in advance on the aggregate level of official currency holdings, currency by currency, and provides for specific action by the Fund to be taken automatically if the agreed level is exceeded. The "on demand" system in section B does not involve precise limits agreed internationally in advance but provides for Fund surveillance over the longer-term trend of currency reserves and ultimately envisages some form of action by the Fund on a discretionary basis if that trend is found to be excessive. The third approach in section C seeks to bridge the gap between these approaches; it involves international agreement in advance on an appropriate level of aggregate official currency holdings, currency by currency, as in the more mandatory system, and provides for specific action by the Fund, but in the first instance on a discretionary basis and then, if the agreed level is exceeded by more than a predetermined amount, on a presumptive basis.

A. A more mandatory system

1. To ensure close control over aggregate official currency holdings and to promote full asset settlement, the Fund would periodically agree on appropriate levels for the official liabilities in domestic currency of countries whose currencies had a significant reserve role. If, on the basis of monthly calculations, a country's aggregate liabilities increased beyond this agreed level (which could initially be the level existing at the restoration of general convertibility), the issuing country would redeem the increase by transferring reserve assets in exchange for its own currency.

2. Any such transfer of reserve assets would be made in the first instance, in the case of countries for whose currencies substitution facilities had been established under paragraph 22 of the *Outline*, to the Substitution Account, and otherwise to countries which volunteered or in the last resort were designated by the Fund to present the currency in question to the issuer for conversion. In choosing countries for designation the Fund could take account of any increase in countries' holdings of the currency concerned, particularly increases reflecting a reduction in holdings of other reserve assets, and might also take account of the absolute level of countries' holdings of the currency.

3. Reliance on the procedures in paragraphs 1 and 2 above would be reduced to the extent that intervention took place in SDRs. If a multicurrency intervention system were adopted, a group of countries (which would include MCI countries but which need not be restricted to them) would undertake to present immediately to the issuing country for settlement official currency balances acquired through intervention or other transactions apart from official settlements within the group or the use of credit facilities.

4. For the purpose of paragraph 1 above, the official liabilities in domestic currency of countries whose currencies had a significant reserve role would be calculated on a monthly basis by the Fund, using monthly returns from those countries and also regular reports of official assets from all member countries. Official liabilities would consist of all liabilities in domestic currency of the public or private sector that are included in the reserves of another member country and also any liabilities to a Substitution Account or an Excess Reserves Account that may be established in the Fund, but would exclude liabilities arising out of the use of credit facilities.

5. In connection with official currency balances held outside the territory of the issuing country, e.g., in Euro-currency markets, which are excluded from the definition in paragraph 4 above, supplementary arrangements—such as those suggested in paragraph 23(c) of the *Outline*—would be needed.

B. An on demand system

1. To ensure sufficient control over the long-term trend of aggregate official currency balances, the Fund, in the context of its general surveillance of the long-term trend of global reserves, would be prepared, if necessary, to recommend procedures for orderly reductions in currency reserves.

2. Issuing countries would have the right to request other countries to limit further accumulation of balances of their currencies, on the lines suggested in paragraph 23(a) of the *Outline*, and countries would respect such requests.

3. In connection with official currency balances held outside the territory of the issuing country, e.g., in Euro-currency markets, supplementary arrangements—such as those suggested in paragraph 23(c) of the *Outline*—might be desirable.

C. A third possible approach

1. To ensure sufficient control over aggregate official currency holdings and to promote a sufficient degree of asset settlement, the Fund would periodically

agree appropriate levels for the official liabilities of countries whose currencies had a significant reserve role. If, on the basis of quarterly calculations, a country's aggregate liabilities increased beyond this agreed level, the Fund would examine the situation and, if it were found to reflect longer-term rather than temporary and reversible factors, the Fund could decide that the issuing country should redeem the increase by transferring reserve assets in exchange for its own currency.

2. In any event, if the country's aggregate liabilities exceeded the agreed level by more than a predetermined amount, the issuing country would redeem the increase by transferring reserve assets in exchange for its own currency, unless the Fund decided otherwise.

3. Any such transfer of reserve assets would be made in the first instance, in the case of countries for whose currencies substitution facilities had been established under paragraph 22 of the *Outline,* to the Substitution Account, and otherwise to countries which volunteered or in the last resort were designated by the Fund to present the currency in question to the issuer for conversion. In choosing countries for designation the Fund could take account of any increase in countries' holdings of the currency concerned, particularly increases reflecting a reduction in holdings of other reserve assets, and might also take account of the absolute level of countries' holdings of the currency.

4. Reliance on the procedures in paragraphs 1–3 above would be reduced to the extent that intervention took place in SDRs. If a multicurrency intervention system were adopted, a group of countries (which would include MCI countries but which need not be restricted to them) would undertake to present immediately to the issuing country for settlement official currency balances acquired through intervention or other transactions apart from official settlements within the group or the use of credit facilities.

5. For the purpose of paragraphs 1–2 above, the official liabilities in domestic currency of countries whose currencies had a significant reserve role would be calculated on a monthly basis by the Fund, using monthly returns from those countries and also regular reports of official assets from all member countries. Official liabilities would consist of all liabilities in domestic currency of the public or private sector that are included in the reserves of another member country and also any liabilities to a Substitution Account or an Excess Reserves Account that may be established in the Fund, but would exclude liabilities arising out of the use of credit facilities.

6. In connection with official currency balances held outside the territory of the issuing country, e.g., in Euro-currency markets, which are excluded from the definition in paragraph 5 above, supplementary arrangements—such as those suggested in paragraph 23(c) of the *Outline*—would be needed.

Annex 6: Elasticity: possible additional forms

Besides credit facilities the following additional forms of elasticity have been suggested, but are not agreed. (For a fuller discussion, see the Report of the Technical Group on Intervention and Settlement.)

A. Under a more mandatory system

Normal settlement arrangements might be temporarily suspended or relaxed by international agreement in the Fund.

B. Under an on demand system

The right of a member country to present currency balances for conversion into primary reserve assets would be suspended if its primary reserves exceeded a predetermined level (primary asset holding limit) and the settlement obligation of the issuer would be correspondingly suspended. For this purpose, primary asset holding limits would be established beyond which the right of countries to acquire primary reserves other than by SDR allocations would be suspended.

C. A possible third approach

Unless the Executive Board decided otherwise, the right of a member country to present currency balances for conversion into primary reserve assets would be suspended if its primary reserves exceeded a predetermined level (primary asset holding limit) and the settlement obligation of the issuer would be correspondingly suspended. (This approach differs from B above in that the primary asset holding limit is presumptive rather than automatic.)

Annex 7: A Substitution Account: possible operational provisions with an illustrative scheme

In order to promote the resumption and maintenance of general convertibility, the reduction of the role of reserve currencies, the development of the SDR as the principal reserve asset and the achievement of a more stable pattern of reserve composition, it is agreed that the Fund would have authority to establish a Substitution Account through which SDRs may be issued in exchange for reserve currencies. A number of important questions would need to be resolved before such an Account was established. In particular, it would be necessary to agree upon the precise limits for the total amount of SDRs which could be issued through the Account and upon the factors mentioned in paragraph 6 below concerning the terms and conditions to be applied to the substituted currency balances. (For a fuller discussion of the question of substitution, see the Reports of the Technical Groups on Intervention and Settlement, and on Global Liquidity and Consolidation.) One possible form of a Substitution Account—which provides for a continuing facility for substitution up to the amount of balances outstanding at the time that the Account is established—could be developed on the lines illustrated in the following paragraphs. It has also been suggested that it might be appropriate to have a once-for-all substitution rather than a continuing facility.

Illustrative scheme

Access by holders of reserve currency balances

1. Member countries that wished to exchange official holdings of currencies (for which substitution facilities had been established) for SDRs would be entitled to buy SDRs from the Substitution Account in exchange for such currency balances subject to any rules which may be agreed. If appropriate at the time when such an Account was established, a substantial initial use of the Account might be negotiated. Countries would not, however, be able to acquire currency balances in exchange for SDRs from the Substitution Account. If the Substitution Account's holding of a currency at any time exceeded the agreed level mentioned in paragraph 2 below the issuing country would redeem the excess by transferring SDRs to the Substitution Account.

Access by issuing countries

2. Issuers of currencies for which substitution facilities were established would be entitled to buy SDRs from the Substitution Account in exchange for their own currency to the extent of any decrease in their official liabilities in their own currency below a maximum level to be agreed, which would be the level existing at the time that the Account is established. Official liabilities would consist of all liabilities in domestic currency of the public or private sector that are included in the reserves of another member country and also any liabilities in domestic currency to a Substitution Account or an Excess Reserves Account that may be established in the Fund, but would exclude liabilities arising out of the use of credit facilities.

3. Provision could be made for the issuers to amortize balances of their currency held by the Substitution Account; and to the extent that such amortization resulted in a reduction in the total of liabilities as defined above, the agreed level in paragraph 2 above would be correspondingly reduced.

General provisions

4. In accordance with the above, the Fund would be authorized to create SDRs and issue them through the Substitution Account in exchange for currency balances either to the holders or to the issuers of such balances.

5. The Substitution Account would further be authorized to engage in the following operations:

(a) to pay interest in SDRs on the SDRs issued;
(b) in consultation with issuers of the currency balances received, to employ those balances in appropriate forms of investments; and
(c) to receive amortization payments in SDRs from the issuers of currency balances held in the Account and to return equivalent amounts of their currency to the issuers against such payments.

6. Prior to establishment of the Account, agreement would have to be reached between the Fund and issuing countries regarding:

(a) interest on Fund holdings of substituted balances;

(b) the denomination of Fund claims on issuing countries arising from the Account's operations;

(c) the disposition of any profits and losses arising from the Account's operations; and

(d) arrangements for amortization of substituted balances.

7. Procedures will be drawn up regulating the liquidation of the Account and termination of an individual country's relationship with the Account.

Annex 8: SDR allocation and cancellation: possible operational provisions

1. It is envisaged that the existing Articles of Agreement relating to the principles governing SDR allocations and cancellations would remain unchanged. The determination of global reserve needs and of appropriate rates of change over time would continue to be based on the use of statistical indicators subject to a process of assessment that would give due weight to symptoms of reserve stringency or ease.

2. It is recognized that the determination of global reserve needs will need to be consistent with other provisions of the reform, in particular the arrangements for convertibility and adjustment, and that the criteria used to assess appropriate levels and rates of change in global reserves must remain the subject of study. (For a fuller discussion of the determination of global reserve needs, see the Report of the Technical Group on Global Liquidity and Consolidation.)

3. It has been suggested, but not agreed, that there are a number of factors to which additional emphasis may need to be given in the future. Such factors mentioned in the Report of the Technical Group on Global Liquidity and Consolidation are the following:

(a) the distribution of reserve holdings, in particular when large reserve holdings are heavily concentrated in countries that are unlikely to face commensurate deficits in the near term;

(b) short-term capital flows and, in particular, shifts between private and official holdings;

(c) foreign indebtedness and the level of debt service payments, to the extent that these factors contribute to the vulnerability of countries to swings in their net external positions; and

(d) the possibility that the low degree of monetization of the economies of less developed areas might lead to an underestimation of their reserve needs.

Other factors are mentioned in the Report of the Technical Group on the Transfer of Real Resources.

Annex 9: Valuation of the SDR: possible operational provisions

Four possible techniques for determining the value of the SDR in transactions against currencies have been elaborated, as described below.

A. The "standard basket" technique

1. This would involve setting the transactions value of the SDR as equal to that of a basket of currencies. The amounts of each currency in the basket would be specified for a considerable period ahead, and the value of SDR 1.00 in terms of any one currency would be the value of the amounts of each of the currencies in the basket expressed in terms of this one currency at the prevailing spot rates. Under this approach an appreciation (depreciation) of any currency in the basket in terms of all other currencies would raise (lower) the value of the SDR in terms of each other currency.

2. If it were desired to give the SDR a stronger capital value than would result from this approach, it would be possible to introduce regular, small and uniform increases in the amount of each currency in the basket. The effect of the resulting appreciation in the capital value of the SDR on its total yield could be offset by a corresponding reduction in the interest rate.

B. The "asymmetrical basket" technique

The asymmetrical basket would set the value of the SDR equal to that of a basket of currencies; but whenever any currency in the basket was devalued, the number of units of that currency in the basket would be increased in proportion to the deviation of the new par value from the previous par value. When a currency in the basket floated downwards, the number of units of that currency in the basket would be increased in a similar way.[1] This would prevent exchange rate changes associated with devaluations or downward floating resulting in reductions of the transactions value of the SDR in terms of other currencies. However, a revaluation or upward float of any currency in the basket would still raise the value of the SDR in terms of other currencies as under the standard basket.

C. The "adjustable basket" technique

1. Under the third technique, the value of the SDR would be set equal to that of a basket of currencies; but the treatment given to devaluations and downward floats under the asymmetrical basket would be extended to revaluations and upward floats as well. This would prevent the exchange rate changes associated with all par value changes and all floats from influencing the value of the SDR in terms of other currencies. Under this approach the long-term evolution of the value of the SDR in terms of currencies would be determined by the balance between revaluations and devaluations, so that the role of the basket would be to define where, within the margins, the precise value of the SDR would be on any day.

2. If it were desired to give the SDR a stronger capital value than that produced by the balance between revaluations and devaluations, it would be possible to introduce regular, small and uniform increases in the amount of each currency in the basket. The effect of the resulting appreciation in the capital value of the SDR on its total yield could be offset by a corresponding reduction in the interest rate.

D. The "par value" technique

1. The fourth technique would involve setting the transactions value of the SDR at par, or at some specified distance (e.g., half the established margin) away from par. This would mean that an exchange rate change that corresponds to a par value change would be fully reflected in the transactions value of the SDR against the currency whose par value had been changed, and would leave the transactions value of the SDR in terms of all other currencies unchanged. Hence the change over time in the value of the SDR in terms of currencies would be determined under this approach, as under the previous one, by the balance between devaluations and revaluations. To give statistical content to this "balance" it would be necessary to make a selection of currencies and to assign weights to them, but this approach differs from the three other approaches discussed in that it would not require for its introduction agreement on a basket.

2. If it were desired to give the SDR a stronger capital value than that produced by the balance between revaluations and devaluations, it would be possible to do so by provision for uniform par value changes. The effect of the resulting appreciation in the capital value of the SDR on its total yield could be offset by a corresponding reduction in the interest rate.

Annex 10: The special interests of developing countries

It is generally agreed that one of the important objectives of reform of the world monetary and economic order should be the promotion of economic development, and that to this end the net flow of real resources to developing countries should be given positive encouragement. This objective is given specific recognition in the arrangements proposed at various points throughout the *Outline*, as noted further in section A below. However, the *Outline* is concerned essentially with the monetary aspects of the world economic system, and it has been recognized that, in relation to this objective particularly, the attainment of the purposes of the reform depends also upon consistent arrangements being made in other areas, as discussed in section B below. (For a fuller discussion of questions concerning the transfer of real resources to developing countries, see the Report of the Technical Group on the Transfer of Real Resources.)

A. Special provisions in international monetary arrangements

1. In discussion of the better working of the adjustment process, it has been agreed that all countries should be guided by the same principles concerning ad-

[1] Various formulas might be constructed to approximate the desired result. For example, the number of units of a downward floating currency in the basket might be increased in proportion to a weighted average of the depreciation of the market rate from the former parity as against each of the nonfloating currencies in the basket.

justment action. At the same time it has been recognized that there are special characteristics of developing countries which make it difficult for them to achieve prompt adjustment without seriously damaging their long-term development programs. Such characteristics include the dependence of many developing countries upon a limited range of exports, often of primary commodities for which the elasticities of both supply and demand are low, which can give rise to particularly sharp fluctuations in their external payments positions. It has also been recognized that in many instances an imbalance in the external position of an individual developing country will not have significant international repercussions. While it would be inconsistent with a one-world approach to international monetary reform and with international payments equilibrium to exclude developing countries from the adjustment procedures on these grounds, it has been agreed that these special characteristics should be taken into account in assessing both the need for adjustment action and the possible application of graduated pressures and in considering the forms of policy action which developing countries feel it necessary to take.

2. It has been agreed that other countries should apply adjustment measures in a manner designed to protect the net flow of real resources to developing countries, by maintaining or where possible increasing aid flows to them, and by ensuring as far as possible the free access of developing countries to both the goods and financial markets of developed countries. Provision is also made for the regular review of the aggregate flow of real resources to developing countries and its financing in the context of Fund surveillance of the adjustment process.

3. Account has been taken of the special concerns of developing countries in relation to global liquidity. In particular, it has been envisaged that better international management of international liquidity should ensure the equitable distribution of official reserves and of access to official credit facilities among all Fund members. Note has been taken of the arguments pointing towards special needs for balance of payments financing and it has been suggested that these arguments should be further considered in the context of future assessments of global reserve needs. Further consideration is being given to the Fund's compensatory finance and buffer stock facilities. The Executive Board has been urged to proceed to an early formulation and adoption of a new facility under which developing countries might receive longer-term balance of payments finance.

4. It has been argued that developing countries may have a particular need for some degree of freedom to choose the composition of their reserves, for example to enable them to hold currency balances against their official borrowings in certain private markets, and it is agreed that such freedom should be accommodated in the future settlement arrangements insofar as it is consistent with the overall objectives of the reform. For their part, the developing countries have recognized the need for international cooperation in the management of currency reserves and the importance of avoiding disequilibrating movements of official funds.

5. Finally, the possibility of establishing a link between development assistance and SDR allocation in the context of the reform has been closely examined and the technical feasibility of different possible forms of such a link has been thoroughly explored. (For a fuller discussion of these questions, see the Report of the Technical Group on the SDR Link and Related Proposals.) The establishment of a link has not been agreed. It is however generally agreed that, if a link were to be established, the amount of SDR allocations and the principal characteristics of SDRs should continue to be determined solely on the basis of global monetary requirements and that these characteristics should be the same for all SDRs whether distributed through normal allocations or through a link.

B. The consistency of arrangements in other areas

1. As noted above, it has been recognized that, to attain the objective of promoting economic development, consistent arrangements are needed in other areas of the world economic system.[1] Specifically, this would involve arrangements for international trade under which commercial policies would be designed to encourage developing countries' exports of manufactures as well as of primary commodities. It would also involve an increasing flow of capital to developing

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[1] This question was also the subject of discussion during the Sixth Special Session of the General Assembly of the United Nations.

countries, both through steps to ensure that the access of developing countries and development finance institutions to world financial markets was as free as possible from legal or administrative constraints and through an increase in official development assistance on concessionary terms to those countries which are unable to borrow in private financial markets.

2. These aspects of the world economic order go beyond the work on reform of the international monetary system which the Committee has undertaken and concern other international institutions. It is recommended that further work should be undertaken on the following:

(a) the amounts and quality of official development assistance;

(b) a review of the policies and procedures of multilateral development finance institutions;

(c) the improvement of access to financial markets in general; and

(d) international financing schemes for commodity regulation and price stabilization.

It is also recommended that a joint Ministerial Committee of the Fund and World Bank should be established to carry forward the study of these questions after the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work, and to recommend measures to be adopted in order to implement its conclusions. It is further recommended that the proposed Committee should give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies. It has been suggested that the proposed Committee should be set up by parallel Resolutions of the respective Boards of Governors, and that these Resolutions should provide for the participation of other international agencies, so as to ensure a coordinated approach. Among the questions that will need to be settled are the composition and procedures of the Committee, as well as arrangements for carrying out work at the technical level.

Exhibit 72.—International Monetary Fund press release, June 13, 1974, on establishment of an Interim Committee of the Board of Governors of the International Monetary Fund on the International Monetary System

The Executive Directors of the Fund are submitting to the Board of Governors a draft resolution recommending the establishment of an Interim Committee of the Board of Governors on the International Monetary System which shall advise the Board of Governors in supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries; considering proposals by the Executive Directors to amend the Articles of Agreement; and dealing with sudden disturbances that might threaten the system.

The members of the Committee will be Governors of the Fund, ministers or others of comparable rank. Each member country of the Fund that appoints an Executive Director (the United States, the United Kingdom, Germany, France, and Japan) and each group of member countries that elected an Executive Director will appoint one member of the Committee—20 in all. In addition, each of the 20 constituencies will appoint 7 associates. The executive director of each constituency will also attend the Committee meetings.

The Interim Committee will serve until a permanent and representative Council of Governors with decisionmaking powers can be established through an amendment of the Fund's Articles of Agreement.

Exhibit 73.—International Monetary Fund press release, June 13, 1974, announcing the establishment of a new oil facility in the Fund to assist member countries

The Fund has decided on the establishment of a facility under which resources will be made available to member countries to assist them to meet the impact on the balances of payments of increases in the costs of petroleum and petroleum products. Resources made available under this decision will be supplementary to any assistance that members may obtain under other policies on the use of the Fund's resources.

Requests for purchases under the Fund decision will be met by the Fund, subject to certain limits, if the Fund is satisfied that the member needs assistance because of the increases in the cost of its imports of petroleum and petroleum products in 1974 and because it has a balance of payments need. The Fund will assess each request in order to determine whether, and the extent to which, the member has such a balance of payments need. A member that has made a purchase under this decision will be expected to cooperate with the Fund to find appropriate solutions for its balance of payments problems.

A further condition for access to the facility is that the member represents that it is following policies not inconsistent with the undertakings set forth in paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and in Executive Board Decision No. 4134-(74/4).

Fund lending of resources under this facility would be repaid as soon as the balance of payments problem for which the purchase had been made was overcome, and in any event in sixteen equal quarterly installments to be completed not later than seven years after the purchase.

Interest on Fund borrowings from members in connection with the facility would be at an annual rate of seven percent, and corresponding rates would be changed to members that draw under the facility. Various members thus far have provisionally agreed to make resources available to the Fund in connection with this facility. They include Abu Dhabi, Canada, Iran, Kuwait, Libya, Oman, Saudi Arabia, and Venezuela. Resources available to the Fund from these countries would total initially the equivalent of about three billion units of special drawing rights.

Not later than September 15, 1974, the Executive Directors of the Fund will review developments since the adoption of this decision in the light of the Fund's existing and prospective liquidity. A further review will be conducted not later than December 31, 1974.

Exhibit 74.—International Monetary Fund press release, June 13, 1974, announcing decisions on valuation and interest rate of the special drawing right, remuneration, and Fund charges

The Executive Directors of the Fund have adopted decisions establishing a new method of valuing the special drawing right (SDR) in terms of currencies, a higher interest rate of the SDR, and new rates of remuneration and charges in the Fund's General Account.

During its meeting in Rome January 17-18, 1974, the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (Committee of Twenty) agreed that, for an interim period and without prejudice to the method of valuation to be adopted in the reformed system, it would be appropriate to base the valuation of the SDR on a "basket" of currencies. The Committee of Twenty invited the Fund's Executive Directors to work urgently on the composition of a basket of currencies, the effective interest rate, and other outstanding questions, with a view to early adoption by the Fund of this method of valuation.

The Executive Directors have adopted a decision to give effect to the standard basket system of valuation for the interim period prior to amendment of the Fund's Articles of Agreement. The amended rules provide that, for the purpose of determining the exchange rate in terms of special drawing rights for a currency, one SDR will be set equal to a basket of currencies of the following composition (in percent):

United States	33	Sweden	2.5
Germany	12.5	Australia	1.5
United Kingdom	9	Spain	1.5
France	7.5	Norway	1.5
Japan	7.5	Denmark	1.5
Canada	6	Austria	1
Italy	6	South Africa	1
Netherlands	4.5		
Belgium	3.5		100

The currencies included in the SDR basket are those of the 16 countries that had a share in world exports of goods and services in excess of 1 percent on average over the 5-year period 1968–72. The relative weights for these currencies were set broadly proportionate to the share of these countries in international transactions, using as proxy for this purpose average exports of goods and services in the period 1968–72 but modified, particularly with respect to the United States, in recognition that the proxy does not necessarily provide an adequate measure of a currency's real weight in the world economy in all cases. Accordingly, the U.S. dollar was assigned the weight of 33 percent of the basket. The Fund will collect exchange rates of the basket currencies daily in order to calculate a daily rate of the SDR in terms of each of the 16 currencies.

The Executive Directors have adopted a decision establishing the rate of interest on the SDR at 5 percent per annum. The interest rate on the SDR will be the same as the basic rate of remuneration on super gold tranche positions. Both rates, after an initial period of 6 months, will be subject to adjustment in relation to a weighted average of short-term market interest rates in the United States, the United Kingdom, Germany, France, and Japan. If the combined market rate is below 9 percent, the rates will be reduced below 5 percent by three-fifths of the difference between the combined market rate and 9 percent. If the combined market rate is above 11 percent, the rates will be increased above 5 percent by three-fifths of the difference between the combined market rate and 11 percent.

However, for the time being in order to bring the Fund's income and expenditure into balance without raising the Fund's charges to undesirably high levels, it has been agreed that, for the next 2 years, a lower rate of remuneration will be paid on the segment corresponding to the Fund's holdings of currency between 75 and 50 percent of quotas. During any periods when the basic rate of remuneration is above 3¼ percent, the lower rate will be 2½ percent or half the basic rate of remuneration, whichever is the higher. Moreover, the lower rate will be increased to the extent that the Fund's net income permits. The provisions in this paragraph will be reviewed after 2 years and will lapse in the absence of a further decision.

Before this decision, the rate of interest on the SDR and the rate of remuneration had been 1½ percent. These two rates are closely linked under Article XXVI, Section 3, of the Fund's Articles of Agreement which provides that the SDR interest rate "shall not be greater than two percent or the rate of remuneration, whichever is higher, or smaller than one percent or the rate of remuneration, whichever is lower."

The Executive Directors have also adopted a decision establishing a revised schedule of charges on use of the Fund's resources. The revised charges, except those resulting from purchases under the oil facility, range from 4 percent on amounts outstanding up to 1 year, to 6 percent for amounts outstanding from 4 to 5 years.

Exhibit 75.—International Monetary Fund press release, June 13, 1974, on "Guidelines for the Management of Floating Rates"

The Executive Directors of the Fund, and the Deputies of the Committee of 20, have discussed "Guidelines for the Management of Floating Rates," as set forth in the [following] memorandum. The members of the Committee of 20 have also examined this memorandum. The Executive Directors have now decided to recommend, pursuant to Article IV, Section 4(a), of the Fund's Articles of Agreement, that in present circumstances, Fund members should use their best endeavors to observe the guidelines set forth and explained in the memorandum. Consultations with members with floating currencies will be based on the memorandum. These guidelines will be reviewed from time to time in order to make any adjustments that may be appropriate.

Introduction

There is widespread agreement that the behavior of governments with respect to exchange rates is a matter of international concern and a matter for consultation and surveillance in the Fund. This is no less true when rates are floating than when they are contained within fixed margins and are changed by par value and central rate adjustments.

The Fund cannot legally authorize floating but it can exercise surveillance over the manner in which members fulfill their undertaking, under Article IV, Section 4(a), "to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members and to avoid competitive exchange alterations." The following guidelines, though not exhausting the possibilities of action by the Fund under this Article, are intended to provide criteria that members would observe in performing their undertaking and that the Fund would observe in exercising surveillance in present circumstances.

These guidelines are based on the assumption that in any situation of floating it may be desirable (a) to smooth out very short-run fluctuations in market rates and (b) to offer a measure of resistance to market tendencies in the slightly longer run, particularly when they are leading to unduly rapid movements in the rate, and (c) to the extent that it is possible to form a reasonable estimate of the medium-term norm for a country's exchange rate, to resist movements in market rates that appear to be deviating substantially from that norm. Guidelines of this kind are necessary, inter alia, in order to arrive at a clear conception of what competitive exchange alteration is, and to provide safeguards against it.

The guidelines also take into account:

(a) that national policies, including those relating to domestic stabilization, should not be subjected to greater constraints than are clearly necessary in the international interest;

(b) that a degree of uncertainty necessarily attaches to any estimate of a medium-term normal exchange rate, that this uncertainty is particularly great in present circumstances, and that on occasion the market view may be more realistic than any official view whether of the country primarily concerned or of an international body; and

(c) that in view of the strength of short-term market forces it may at times be unavoidable to forego or curtail official intervention that would be desirable from the standpoint of exchange stability if such intervention should involve an excessive drain on reserves or an impact on the money supply which it is difficult to neutralize.

The guidelines are intended to provide the basis for a meaningful dialogue between the Fund and member countries with a view to promoting international consistency during a period of widespread floating. They are termed guidelines rather than rules to indicate their tentative and experimental character. They should be adaptable to changing circumstances. No attempt is here made to indicate the precise procedures through which they would be implemented. These will be considered later, but they must essentially rest on an intensification of the confidential interchange between the member and the Fund.

In the application of the guidelines it is to be expected that, in view of the emphasis laid by the Committee of 20 at their fifth (Rome) meeting on the importance in present circumstances of avoiding competitive depreciation, particular attention would be attached to departures from the guidelines in the direction of depreciation. Special consideration will also be given to the manner in which the guidelines should be applied by developing countries, taking account of the stage of evolution of their exchange markets and intervention practices.

The guidelines should be understood in the light of the commentary which follows.

The guidelines

1. A member with a floating exchange rate should intervene on the foreign exchange market as necessary to prevent or moderate sharp and disruptive fluctuations from day to day and from week to week in the exchange value of its currency.

2. Subject to 3(b), a member with a floating rate may act, through intervention or otherwise, to moderate movements in the exchange value of its currency from month to month and quarter to quarter, and is encouraged to do so, if necessary, where factors recognized to be temporary are at work. Subject to 1 and 3(a), the member should not normally act aggressively with respect to the exchange value of its currency (i.e., should not so act as to depress that value when it is falling, or to enhance that value when it is rising).

3. (a) If a member with a floating rate should desire to act otherwise than in accordance with 1 and 2 above in order to bring its exchange rate within, or closer to, some target zone of rates, it should consult with the Fund about this target and its adaptation to changing circumstances. If the Fund con-

siders the target to be within the range of reasonable estimates of the medium-term norm for the exchange rate in question, the member would be free, subject to 5, to act aggressively to move its rate towards the target zone, though within that zone, 2 would continue to apply.

(b) If the exchange rate of a member with a floating rate has moved outside what the Fund considers to be the range of reasonable estimates of the medium-term norm for that exchange rate to an extent the Fund considers likely to be harmful to the interests of members, the Fund will consult with the member, and in the light of such consultation may encourage the member, despite 2 above, (i) not to act to moderate movements toward this range or (ii) to take action to moderate further divergence from the range. A member would not be asked to hold any particular rate against strong market pressure.

4. A member with a floating exchange rate would be encouraged to indicate to the Fund its broad objective for the development of its reserves over a period ahead and to discuss this objective with the Fund. If the Fund, taking account of the world reserve situation, considered the objective to be reasonable and if the member's reserves were relatively low by this standard, the member would be encouraged to intervene more strongly under Guideline 2 to moderate a movement in its rate when the rate was rising than when it was falling. If the member's reserves were relatively high by this standard it would be encouraged to intervene more strongly to moderate a movement in its rate when the rate was falling than when it was rising. In considering target exchange rate zones under 3, also, the Fund would pay due regard to the desirability of avoiding an increase over the medium term of reserves that were recognized by the standard to be relatively high, and the reduction of reserves that were recognized to be relatively low.

5. A member with a floating rate, like other members, should refrain from introducing restrictions for balance of payments purposes on current account transactions or payments and should endeavor progressively to remove such restrictions of this kind as may exist.

6. Members with a floating rate will bear in mind, in intervention, the interests of other members including those of the issuing countries in whose currencies they intervene. Mutually satisfactory arrangements might usefully be agreed between the issuers and users of intervention currencies, with respect to the use of such currencies in intervention. Any such arrangements should be compatible with the purposes of the foregoing guidelines. The Fund will stand ready to assist members in dealing with any problems that may arise in connection with them.

Commentary

General

Certain of the terms used in the guidelines may be defined as follows:

(i) "A member with a floating exchange rate" means a member whose currency is floating independently in the sense that it is not pegged, within relatively narrow margins, to any other currency or composite of currencies. Members whose currencies are pegged to particular floating currencies, or to composites of such currencies, within these margins would be exempt from these guidelines, though not from any general principles relating to adjustment. Members which, though their currencies are pegged to another currency, change the peg frequently in the light of some formula relating, e.g., to price indices, would be expected to discuss this formula and any changes therein with the Fund. Members whose currencies are pegged to a composite of other currencies (e.g., members whose effective rates are fixed) would likewise be expected to discuss with the Fund the composite in question and any changes therein. Members whose currencies are floating jointly under mutual intervention arrangements with relatively narrow margins would be exempted from the intervention guidelines so far as intervention in each other's currencies is concerned, but would be held responsible to the Fund for their exchange market intervention vis-à-vis the rest of the world. As regards capital controls, official financing, and other measures to influence capital flows, each member belonging to such a group would be responsible for its measures judged in relation to its overall balance of payments situation.

(ii) "Exchange market intervention" would normally be measured by the movement of reserves, adjusted as appropriate for compensatory official borrowing. Consideration might also be given to including in the concept of intervention changes in official foreign exchange positions other than reserves.

(iii) "Action to influence an exchange rate" includes, besides exchange market intervention, other policies that exercise a temporary effect on the balance of payments and hence on exchange rates, and that have been adopted for that purpose. Such policies may take the form of official forward exchange market intervention, official foreign borrowing or lending, capital restrictions, separate capital exchange markets, various types of fiscal intervention, and also monetary or interest rate policies. Monetary or interest rate policies adopted for demand management purposes or other policies adopted for purposes other than balance of payments purposes would not be regarded as action to influence the exchange rate.

(iv) Where the terms "exchange rate" or "exchange value" are employed with respect to any currency it is assumed that these would normally be expressed in terms of effective rates, i.e., the value of the currency would be measured relative to a representative set of currencies rather than relative to its intervention currency alone. The set chosen for this purpose should, in principle, vary from country to country, and the currencies in the set should be weighted according to their importance to the country in question. The composition of the set might be based on trade and financial relationships or on trade relationships alone. If trade-weighted, it might be derived from the Multilateral Exchange Rate Model, or based on bilateral trade relationships. In some cases the basket used for the valuation of the SDR might be satisfactory for this purpose also. In some cases, finally, the rate vis-à-vis a single currency might provide a satisfactory approximation to an effective rate.

On guideline 1

Known large once-for-all or reversible transactions would be largely offset and their effects spread over time. In addition, intervention would be undertaken to moderate large day-to-day or week-to-week movements in rates due to speculative or other factors. Such intervention, if properly conducted, should tend to net out over time.

It is unlikely to be necessary for the issuer of the principal intervention currency itself to intervene from day to day in the manner described in this guideline.

On guideline 3

(i) The concept of a medium-term norm for an exchange rate is employed explicitly in (a) and implicitly in (b) of Guideline 3. By this is meant a rate that would tend to bring about equilibrium in the "underlying" balance of payments, i.e., in the overall balance in the absence of cyclical and other short-term factors affecting the balance of payments, including government policies which are, or, on internationally accepted principles, ought to be temporary. If the member concerned so proposes and the Fund agrees, "equilibrium" could allow for an internationally appropriate rate of increase or decrease in the member's reserves. The "medium-term" might be considered to refer to a period of about four years. Seasonal, speculative, and cyclical factors whose effects were reversible over such a period would be ignored.

(ii) An advantage of conceiving medium-term norms or target zones in terms of effective rates is that so long as the effective rate remains constant the balance of trade or currency payments of the floating country would not be greatly affected by changes in the relative exchange rates of the currencies of other countries. This should reduce the frequency with which it would be necessary to change zone boundaries, or the magnitude of the changes involved. It would be open to a member if it so desired to express its target rate or zone not as one that is constant over time but as one that is rising or falling at a certain rate or at a rate dependent, for example, on an index of relative price or cost levels.

(iii) Under Guideline 3(b), the Fund would be authorized to take the initiative in situations where it considered that a member's rate was likely to become harmful to the interests of members whether as a result of market forces or of action by the member. Recommendations to a member under this provision would be made by the Executive Directors, on a proposal by the Managing Director, but the Managing Director would not make such a proposal except after consultation with the member.

(iv) The greater the degree of uncertainty regarding the balance of payments situation and prospects of a country the wider would be the range of reasonable estimates of the medium-term norm for its exchange rate, and the wider would be the deviation beyond this range which would occur before the Fund would make any suggestions under Guideline 3(b). The Fund's right to make suggestions under this guideline will, in any case, be exercised with restraint.

(v) In any suggestions the Fund might make under Guideline 3(b), it would give a preference to liberalizing as opposed to restricting ways of exercising a given effect on exchange rates, but would bear in mind the distinction between capital controls applied for temporary balance of payments reasons and those applied for other economic and social reasons.

On guideline 6

This guideline would imply that in their use of their customary reserve currencies members with a floating rate, while recognizing the need of issuing countries for reasonable freedom of exchange rate movement, should not be precluded from intervening in a manner conformable with the guidelines. Among the problems that might arise regarding the use of intervention currencies, in the resolution of which the Fund might be of service, are those regarding the circumstances in which a member might intervene in a currency other than its customary reserve currency, the problem of interventions that move the value of the currency of intervention in an undesirable direction, and the problem of mutually offsetting interventions.

Exhibit 76.—Press release, June 26, 1974, announcing proposed rule making and proposed reporting forms requiring reports of the foreign currency positions of banks and other firms

Treasury today announced notices of proposed rule making and proposed reporting forms requiring reports of the foreign currency positions of banks and other firms, have been filed for publication in the Federal Register, Thursday, June 27.

The new reports are required by Title II of Public Law 93–110, which amended the Par Value Modification Act. Title II requires the Secretary of the Treasury to institute new statistical reports pertaining to the foreign currency transactions of banks and other business firms in the United States and of foreign branches and majority-owned foreign subsidiaries of U.S. firms.

The new reports will provide information on the activities of large banks and other firms which affect the position of the dollar in the foreign exchange market.

The reports will provide data on the spot and forward positions and assets and liabilities of banks and other firms in the United States and of foreign branches and majority-owned foreign subsidiaries of U.S. banks and other firms. Initially it is contemplated that reports will be required in eight major currencies: Belgian francs, Canadian dollars, Dutch guilders, French francs, German marks, Japanese yen, Swiss francs, and United Kingdom pounds.

A reporting exemption is provided, so that reports will be required only from major banks which are active in the foreign exchange markets and from major nonbanking firms.

The proposed regulations and report forms are being published in the Federal Register as notices of proposed rule making and proposed reporting forms with provision for a 30-day period for written comment by interested parties. Comments should be submitted in triplicate to the General Counsel, Department of the Treasury, Washington, D.C. 20220, and should be received within 30 days. Comments submitted in response to the proposed rule making and proposed reporting forms will be available to the public on request unless confidential status for the submission is requested and approved.

The proposed forms and regulations will be reviewed and revised as appropriate in light of the comments received. The forms will also be submitted to the Office of Management and Budget for clearance pursuant to the Federal Reports Act.

International Trade Affairs

Exhibit 77.—Statement by Secretary Shultz, September 12, 1973, at the Tokyo Ministerial Conference opening the multilateral trade negotiations, on challenges facing the negotiations

This is an historic meeting, and I am honored to participate in it. We join here in the first formal step toward a major expansion and improvement of global trading relationships. While these negotiations build upon what has been achieved in the past, in the Kennedy round and earlier, they are also a bold step beyond our past. Our present undertaking is broader in scope, more ambitious in objective, and guided by a clearer view of economic and political realities.

I was told before I came that Tokyo would be the occasion for many speeches on the benefits of open international trade. I expect that will be true. And I consider it entirely appropriate that it should be true. As we embark upon a course of negotiations to last for many months and involving details of endless complexity, we should remind ourselves of the principles that should underlie our efforts. However obvious these principles may seem to us, the process of putting them into practice has always been difficult and is far from complete.

The basic principle that brings us here is simple and needs no great elaboration. When there is voluntary exchange, both parties—the buyer and the seller—gain. If they did not, one party or the other would refuse to exchange. This principle is as valid when the parties are in different countries as when they are in the same country. Obstacles that governments place in the way of trade, internally or externally, prevent people from doing business that would be beneficial to all participants.

What is involved is more than one country trading what it produces most efficiently today for what another country produces most efficiently today. Open trade forces and stimulates all of us to become more efficient. The wind of foreign competition drives businesses in all countries to more innovation, greater research and development efforts, and better adaptation to the wants of consumers.

Our generation has more cause to recognize the force of these ideas than any before us. We have been living through the greatest and most widely shared economic advance in world history, and the greatest expansion of international trade. This combination of developments is, of course, no coincidence.

The growth of world output has contributed to the rise of trade, but the rise of trade has also contributed to the growth of world output. Greater access to markets has promoted specialization in production, and thereby the better use of each country's resources. Competitive pressure from foreign firms has stimulated the growth of technology and business acumen.

As a result of greater openness in the world economy, economic opportunities have been substantially broadened for the citizens of all nations and the standard of living has improved throughout the world. Freer trade has led to higher real wages for working men and women and a wide choice of goods to consumers.

One recent development in economic policy holds a useful lesson for all of us. Governments in many parts of the world, such as Australia, Japan, Canada, some European countries, and the United States, have been led by compelling domestic reasons to reduce unilaterally their tariffs or quotas, without asking for reciprocal concessions from others. Although the circumstances in each case may have differed, this is a reminder that we should not think of every reduction of our own restrictions as a concession made for the benefit of others and worthwhile only if there is a greater or at least equal concession by others. The general principles that guide our work suggest that we gain from reduction of our own barriers as well as from reduction of the barriers of others.

Of course, there are qualifications to the basic ideas of trade liberalization. The participants in this conference, who live in the governmental and political process, are especially aware of these qualifications. Substantial reduction of trade barriers may cause local and temporary difficulties that cannot be ignored, however great the longer run and more general benefits may be. Transitional protection may sometimes permit the achievement of efficiencies that would not be possible without it. Other reservations can be thought of.

These qualifications constitute the case for gradualism, selectivity, and mutuality. No doubt, much of the time in the negotiations now beginning will be devoted to these qualifications. But let us, as we say in the United States, keep our "eye on the ball"—the liberalization and expansion of trade—and seek to deal with the problems in ways most consistent with that overall objective.

I see a number of important challenges for these negotiations. In listing them, I do not mean to imply they encompass the full range of issues that we expect these negotiations to cover, nor that they will necessarily appear as specific items on the agenda for the negotiations.

Guidelines and procedures

The central challenge for these negotiations is, as I see it, to develop guidelines and procedures that will permit the elimination of barriers to trade, while preserving the ability of governments to carry out their domestic responsibilities. Many of the important barriers that still hamper international trade result from the efforts of individual governments to achieve a variety of domestic economic, social, and political objectives. We must develop the means whereby these barriers can be eliminated or minimized. Because national needs and policy preferences frequently differ, we need to develop rules that will give each government considerable leeway in forming and pursuing its own policies. At the same time, we need to encourage countries to devise policy measures that minimize disruption of the economic interests of other nations.

In an interdependent world, the policies pursued by any one government in carrying out its domestic responsibilities are bound to conflict at one time or another with the policies pursued by other governments. We therefore will have to focus on the procedures and arrangements that are designed to minimize these conflicts and effectively to resolve disputes that may arise. Our common institutions, such as the GATT, have performed this role well. These institutions are aging, however, and while they may be structurally sound, it is important that we look closely at our recent experiences in dealing wtih trade problems to see where the rules and procedures can be updated and improved.

Safeguards against disruptive imports.—Our recent experience would indicate that we need particularly to look at the rules and procedures that deal with problems of import disruption. Every country represented here has at one time or another found it necessary to limit imports temporarily in order to permit domestic industry enough time to adjust. Frequently the current rules and procedures covering such actions have proved unsuitable, and governments have had to work out informal arrangements. While such arrangements have proved expedient, they have not been able to cope with all problems, and have been accompanied by an unnecessary degree of international friction. It is time that we face this issue squarely and together design a mutually acceptable safeguard system.

Food.—Another area where common action would be desirable is the area of agriculture. The current shortage in agricultural supplies and the danger that it will be repeated in the future gives great urgency to the need to find a more rational pattern of production and trade in agricultural commodities. If we take advantage of this occasion to expand opportunities for world trade in this area, we will be able to make available more food at cheaper prices for everyone. A number of thoughts have been expressed on how this might be accomplished. We are willing to examine any serious proposal.

In the past year, we have seen how international trade in agricultural commodities can help to avoid what would otherwise have been critical food shortages. The decline in world grain production was alleviated for many countries by the ability to import, especially from the United States. Despite poor growing weather and poor harvests in our own country, we have supplied greatly enlarged quantities of goods and feeds to countries in every part of the world, partly at the expense of a substantial reduction in our own stocks.

Our exports of wheat in fiscal 1973 reached 32 million metric tons, almost double the amount shipped in fiscal 1972, and equivalent to three-fourths of U.S. production. Exports of feed grains jumped sharply from 21 million tons to 35 million tons. And soybean exports rose to 14 million tons, an increase over the previous year of 2 million tons. More than half of our soybean crop went into export. Indeed, all of the increase in our soybean crop was exported last season.

Although our stock position has been sharply reduced, we anticipate that an excellent feed grain and record soybean crop this season will permit us to meet foreign demand for these commodities in fiscal 1974 with exports at levels higher than the record levels of last year, and that our wheat exports will be close to last season's very high level. To meet anticipated world needs this year, we have put millions of acres back into production and for 1974 all our reserve acreage has been removed from set-aside restrictions. We have proved that in the pinch, the United States is, indeed, a dependable supplier—and that its market-oriented system can be relied upon.

Regional integration and the most-favored-nation principle

Now let me turn to a development that has been a source of increasing concern to the United States. Over the past few years we have seen a tendency to move away from the notion of a single world trading system in which all nations are treated equally. The most-favored-nation principle has been the cornerstone of our global system. Now we are seeing that principle increasingly disregarded. At a time when the circle of nations participating in the world trading system is increasing, we need to rededicate ourselves to the ideals of a single nondiscriminatory trading order.

I should say in this respect that we continue to support the many regional efforts to achieve political and economic integration. This makes sense where neighboring countries, sharing common traditions, find their economic affairs increasingly linked. We feel compelled to insist, however, that such efforts not undermine the global system that we have built together, and from which we have derived great benefit. It is thus important that countries in regional groupings organize themselves in such a way that they can effectively discharge as a unit the responsibilities to which they have committed themselves individually as nations.

Support for less developed countries.—We support efforts to give the less developed countries special access to foreign markets. We believe that such arrangements will benefit the industrial nations as well as the developing nations. We also recognize that it would not be appropriate or desirable for us to insist that these countries assume the same responsibilities as we expect from those countries that have achieved a relatively high degree of economic development. At the same time, however, we do expect commitments appropriate to a nation's stage of development and to a sharing of the responsibility for the effective working of the global system. No international undertaking can succeed if those who derive a benefit from it do not contribute to it. And the system as a whole cannot work unless all nations contribute to its effective functioning.

Monetary and trade interrelationships

Lastly, let me say a word about the relationship between our efforts here and those related to the reform of the world monetary system. We recognize the interrelationship between monetary affairs and trade matters. A primary goal of an international monetary system, on the one hand, is to facilitate trade; that objective is seriously jeopardized when monetary relations become unstable. On the other hand, the logic is equally strong that the adjustment process in the monetary system is less effective and less responsive when trade is restricted by direct measures, and can respond only slowly, and in a partial and distorted way, to the forces of the monetary adjustment process. In short, actions in one field can, but should not be allowed to, frustrate the solutions reached in other fields. There is thus a need for simultaneous improvement in all elements of the international economic system.

Although concrete progress in one area of negotiation should not be held hostage to specific negotiations in another, overall success in one area will ultimately be dependent on success in another. Where specific overlaps do occur, work in one area ought to supplement rather than frustrate work in other areas.

Negotiating mandate of the United States

My Government believes it is important to take advantage of the opportunity presented by these negotiations and is anxious to participate vigorously. In implementing negotiated changes and in strengthening our commitment to the basic objectives, of course we will need the support, advice, and concurrence of our Congress.

President Nixon submitted his Trade Reform Act to the Congress in April of this year. That bill has received thoughtful and highly constructive consideration in the Ways and Means Committee of the House of Representatives and will likely remain under consideration in the Congress for a few more months. The ranking Democratic and Republican members of that committee issued a statement last week expressing their "hope and belief that we will complete work on the bill by October 1." They also said, "We believe that the committee will report a bill that will provide sufficient scope for comprehensive negotiations aimed at removing trade barriers and substantially expanding world trade. It is our hope and purpose that the Congress will act on this legislation in ample time to facilitate these negotiations."

The fact that our trade bill is still under congressional review does not impede our ability to participate actively and fully at this stage. The negotiations which begin at this conference will, at the outset, concentrate on preparing the way for the detailed bargaining process to come. We remain committed to the start of substantive work on these negotiations in late October of this year and, to the pursuit of that work on an intensive and continuous basis, without any interim delay.

I must call to your attention the fact that the attitude of the Congress toward these negotiations—and, therefore, the mandate they will be willing to give our negotiators—will be influenced by the manner in which we are able to settle in coming months some outstanding issues with our trading partners. We have already reached satisfactory agreements recently with some of our major trading partners to eliminate longstanding trade restrictions inconsistent with the GATT. This has been a very positive development and clearly demonstrates to domestic observers that the GATT does work. There are, nonetheless, some other issues pending at this time. We view the settlement of these issues as an indication of the confidence we can have in the ability of the international community to reach an agreement on a more open and improved world trading order, and we know that it is essential to demonstrate the basis for this confidence to the Congress.

The U.S. approach

In a few words, the U.S. approach to these negotiations will be based on the following ideas:

1. We desire to expand the opportunities for international trade, and are willing to participate fully in the common effort to eliminate or reduce barriers to all trade, agricultural or industrial.
2. We seek an agreement that will be beneficial to all the participants and recognized as such by them. This will require that the agreement be balanced from the standpoint of each participant. However, we believe that to insist on a balance in every individual component of every agreement is unnecessary and would undesirably limit what can be achieved.
3. We believe that there should be a substantial expansion of duty-free trade as well as a substantial reduction in the average tariff on the remaining dutiable items.
4. We consider it one of the main objectives of these negotiations to remove as many nontariff barriers as possible and to reduce as far as possible those that cannot be removed.
5. Reduction of barriers to agricultural trade is a major goal and negotiations to that end should move forward together with negotiations on industrial products. We should agree that where we find domestic actions necessary to assist our own farmers, those actions should not be of a kind that injure farmers in other countries.
6. We believe that the maximum liberalization of trade will be achieved if we can agree on a multilateral safeguard system that will allow governments to take appropriate actions when a rapid rise of imports threatens to disrupt domestic production in a particular industry, but at the same time will assure that such measures will not be any broader or continued any longer than necessary for the domestic adjustment process.
7. We have an open mind about the specific techniques or arrangements to be employed in achieving the common goals of the negotiations.
8. We are eager to see the negotiations begin promptly and proceed rapidly and pledge our maximum cooperation to that goal.

Let us begin

We look to the Trade Negotiations Committee (TNC) to play an important role in guiding these negotiations toward their desired ends. We hope that the TNC will begin its work as soon as possible, setting up procedures for subgroups, and moving them promptly toward continuous, effective work on the substance of the negotiations. We hope that the participating governments can focus on trade-negotiating plans, undertake the basic analytical work which needs to be done at the earliest possible date, and begin this process in the TNC no later than November 1. Once we have begun, we should work in earnest, continuously, so that the target of finishing in 1975 can be met.

In our view, the declaration negotiated by the Preparatory Committee in July represents a sound basis for beginning these negotiations and provides useful political guidance for our negotiators to follow. While we recognize that there are some disagreements with the declaration based on specific points of substance or emphasis, the declaration does provide a framework for achieving ends desirable to us all. To translate that declaration into change in our trade relations is the task which will be before us throughout these negotiations.

The progress we all want in these negotiations can only be accomplished by a joint effort in which all of us make appropriate contributions and receive appropriate benefits. Let this declaration of Tokyo serve as a starting point and a point of inspiration. Let the vision which has in the past inspired nations to achieve great goals guide us in a common effort to construct a durable order that will contribute to international harmony and prosperity for us and for future generations.

Exhibit 78.—Declaration of Ministers Opening the Multilateral Trade Negotiations, September 14, 1973, Tokyo, Japan

The Ministers, having considered the report of the Preparatory Committee for the Trade Negotiations and having noted that a number of governments have decided to enter into comprehensive multilateral trade negotiations in the framework of GATT and that other governments have indicated their intention to make a decision as soon as possible, declare the negotiations officially open. Governments which have decided to negotiate have notified the Director-General of GATT to this effect, and the Ministers agree that it will be open to any other government, through a notification to the Director-General, to participate in the negotiations. The Ministers hope that the negotiations will involve the active participation of as many countries as possible. They expect the negotiations to be engaged effectively as rapidly as possible, and that, to that end, the governments concerned will have such authority as may be required.

The negotiations shall aim to—

Achieve the expansion and ever-greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world, objectives which can be achieved, inter alia, through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade.

Secure additional benefits for the international trade of developing countries so as to achieve a substantial increase in their foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade, taking into account their development needs, an improvement in the possibilities for these countries to participate in the expansion of world trade and a better balance as between developed and developing countries and, wherever appropriate, measures designed to expansion, through, in the largest possible measure, a substantial improvement in the conditions of access for the products of interest to the developing countries and, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products. To this end, coordinated efforts shall be made to solve in an equitable way the trade problems of all participating countries, taking into account the specific trade problems of the developing countries.

To this end the negotiations should aim, inter alia, to:

(a) Conduct negotiations on tariffs by employment of appropriate formulae of as general application as possible;

(b) Reduce or eliminate non-tariff measures or, where this is not appropriate, to reduce or eliminate their trade restricting or distorting effects, and to bring such measures under more effective international discipline;

(c) Include an examination of the possibilities for the coordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique;

(d) Include an examination of the adequacy of the multilateral safeguard system, considering particularly the modalities of application of Article

XIX, with a view to furthering trade liberalization and preserving its results;

(e) Include, as regards agriculture, an approach to negotiations which, while in line with the general objectives of the negotiations, should take account of the special characteristics and problems in this sector;

(f) Treat tropical products as a special and priority sector.

The negotiations shall cover tariffs, non-tariff barriers and other measures which impede or distort international trade in both industrial and agricultural products, including tropical products and raw materials, whether in primary form or at any stage of processing including in particular products of export interest to developing countries and measures affecting their exports.

The negotiations shall be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity, while observing the most-favored-nation clause, and consistently with the provisions of the General Agreement relating to such negotiations. Participants shall jointly endeavor in the negotiations to achieve, by appropriate methods, an overall balance of advantage at the highest possible level. The developed countries do not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of the trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. The Ministers recognize the need for special measures to be taken in the negotiations to assist the developing countries in their efforts to increase their export earnings and promote their economic development and, where appropriate, for priority attention to be given to products or areas of interest to developing countries. They also recognize the importance of maintaining and improving the generalized system of preferences. They further recognize the importance of the application of differential measures to developing countries in ways which will provide special and more favorable treatment for them in areas of the negotiations where this is feasible and appropriate.

The Ministers recognize that the particular situation and problems of the least developed among the developing countries shall be given special attention, and stress the need to ensure that these countries receive special treatment in the context of any general or specific measures taken in favor of the developing countries during the negotiations.

The policy of liberalizing world trade cannot be carried out successfully in the absence of parallel efforts to set up a monetary system which shields the world economy from the shocks and imbalances which have previously occurred. The Ministers will not lose sight of the fact that the efforts which are to be made in the trade field imply continuing efforts to maintain orderly conditions and to establish a durable and equitable monetary system. The Ministers recognize equally that the new phase in the liberalization of trade which it is their intention to undertake should facilitate the orderly functioning of the monetary system. The Ministers recognize that they should bear these considerations in mind both at the opening of and throughout the negotiations. Efforts in these two fields will thus be able to contribute effectively to an improvement of international economic relations, taking into account the special characteristics of the economies of the developing countries and their problems.

The negotiations shall be considered as one undertaking, the various elements of which shall move forward together.

Support is reaffirmed for the principles, rules and disciplines provided for under the General Agreement. Consideration shall be given to improvements in the international framework for the conduct of world trade which might be desirable in the light of progress in the negotiations and, in this endeavor, care shall be taken to ensure that any measures introduced as a result are consistent with the overall objectives and principles of the trade negotiations and particularly of trade liberalization.

A Trade Negotiations Committee is established, with authority taking into account the present declaration, inter alia:

(a) To elaborate and put into effect detailed trade negotiating plans and to establish appropriate negotiating procedures, including special procedures, for the negotiations between developed and developing countries;

(b) To supervise the program of negotiations.

The Trade Negotiations Committee shall be open to participating governments.

The Trade Negotiations Committee shall hold its opening meeting not later than November 1, 1973.

The Ministers intend that the trade negotiations be concluded in 1975.

This does not necessarily represent the views of representatives of countries not now parties to the General Agreement, including the European Communities.

Exhibit 79.—Excerpt from Joint Statement on Third Session of the U.S.-U.S.S.R. Commercial Commission, October 3, 1973, Moscow

The U.S.-U.S.S.R. Joint Commercial Commission, which was established during the summit meeting in May 1972 today concluded its third session. The session, which took place in Moscow, was chaired by the Minister of Foreign Trade of the U.S.S.R., N. S. Patolichev.

The American delegation was led by Presidential Assistant George P. Shultz, U.S. Secretary of the Treasury. The session, held during the period October 1–3, included two plenary conferences and several working group sessions devoted to the principal aspects of trade and economic relationships between the two countries.

In the course of their stay in Moscow, Secretaries Shultz and Dent and Under Secretary Casey were received by General Secretary Leonid Brezhnev and the Chairman of the Council of Ministers of the U.S.S.R., A. N. Kosygin. In addition they had the opportunity to discuss matters of mutual interest with Deputy Chairman of the Council of Ministers V. N. Novikov, the chairman Nikolay K. Baybakov of the State Committee on Planning (GOSPLAN), U.S.S.R. Finance Minister Vasiliy F. Garbuzov, U.S.S.R. Minister of Light Industry Nikolay N. Tarasov, and First Deputy Foreign Minister Vasilivy V. Kuznetsov, as well as U.S.A. Institute Director Georgiy A. Arbatov.

The 3-day meeting period saw the opening of the expanded U.S. Commercial Office in Moscow and the Soviet trade representation in Washington, and the announcement of the organization of the Joint U.S.-U.S.S.R. Trade and Economic Council.

Included in the broad range of matters explored were the outlook for substantial increases in bilateral trade and for long-term cooperation in industrial projects including those which would provide for delivery of Siberian natural gas to the United States and those which would involve the development of energy-consuming production facilities in the U.S.S.R. The meetings also discussed the availability of credit and the further improvement of facilities for the conduct of business on both sides.

In the first 7 months of 1973, the total trade turnover (exports plus imports) of about 900 million dollars between the United States and the U.S.S.R. exceeded total United States-Soviet trade for the past two calendar years. It was anticipated that two-way Soviet-United States trade could reach roughly 1.5 billion dollars in the current year. The projects are consistent with the total of a 2–3 billion dollar trade level over the next 3 years foreseen by President Nixon and General Secretary Brezhnev in June of this year.

At the final plenary session on October 3, Minister Patolichev and Secretary Shultz exchanged documents officially dedicating a commercial office for the United States in Moscow and the trade representation of the U.S.S.R. in Washington. Both agreed that inauguration of the expanded commercial representation offices marked another important step toward increased commercial ties between the United States and the Soviet Union, as envisioned in discussions during the June summit in Washington.

Both sides expressed their confidence that the work of the Joint Commission will continue to facilitate the further growth of trade relationships between the two countries. They agreed that the fourth session of the U.S.-U.S.S.R. Joint Commercial Commission should be held in Washington in 1974.

The U.S. delegation expressed their deep appreciation for the thoughtful and generous hospitality accorded by their Soviet hosts during the delegation's stay in the U.S.S.R.

Exhibit 80.—Statement by Secretary Shultz, March 4, 1974, before the Senate Committee on Finance, on the Trade Reform Act of 1973

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.

During a time of rapid inflation and of short supply situations in many commodities, it has become more important than ever to remove artificial barriers that result in fewer goods being produced both here and abroad. Tariffs, quotas, embargoes, and other restrictions on imports and exports generally prevent each country from producing what it could produce most efficiently. Thus fewer goods are produced at higher cost and there is a loss of economic welfare to the country as a whole.

Our goal must be to improve the efficiency of the U.S. economy. At the same time, we can and we must take account of special hardships that sometimes accompany a transition from a less efficient to a more efficient allocation of our productive resources or that sometimes accompany the rapid changes in production and trade which occur with greater frequency in our modern world.

The trade bill before you has been designed with these considerations in mind. It provides the President with the authority he needs to negotiate effectively on behalf of American workers, businessmen, and consumers. Briefly, the bill 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;

(d) Authority for temporary reduction of import barriers when necessary to combat inflation (we shall propose similar authority in short supply situations);

(e) Revised and simplified authority to raise import barriers against countries that unreasonably or unjustifiably restrict our exports; and

(f) Permission for the United States to extend preferential duty-free treatment to certain imports from developing countries.

These authorities are necessary to insure meaningful trade negotiations and necessary to insure that our export firms can compete on a basis of equality in international markets.

The Trade Reform Act would also provide a set of tools to deal with domestic problems that may arise in connection with international trade:

(a) The Trade Reform Act would introduce a fairer and less stringent test for domestic industry to qualify for temporary import relief or adjustment assistance in order to give it time to adjust to import competition or to avoid serious injury. It provides easier access and greater benefits to workers who qualify for adjustment assistance.

(b) The act would also improve procedures for protecting American workers and industry from unfair competition by amending the antidumping and countervailing duty statutes, although with less flexibility than I had hoped. I will have more to say on this later.

The act would also deal with the President's request for authority to extend equal tariff treatment to nonmarket economies. The restrictions proposed by the House of Representatives on the use of this authority, and the additional provision which would effectively preclude the continued granting of official credits to some of these countries, would in my view be extremely ill advised. I believe, however, that a substitute wording could be found effectively to express the concern of the Congress that issues of basic human rights not be ignored, while not blocking the development of more normal economic relations with the nonmarket economy countries.

During the last few months, the problem of assuring adequate access to the world's supply of primary raw materials has become dramatically evident, and we think it would be appropriate to reflect this new focus in the trade bill.

A number of proposals have been put forward by Members of Congress. We are receptive to these ideas, and we want to make some proposals along similar lines. In brief, we ought to have authority to negotiate with major foreign suppliers adequate commitments on the availability of key raw materials. At the same time, we need unambiguous authority to withdraw the benefits of trade concessions from countries that impose illegal or unreasonable restraints on sales of commodities in short supply.

Our new concern for access to foreign supplies should not mislead us, however, into thinking that our welfare is no longer endangered by import barriers. Foreign tariffs remain an important obstacle to our trade, and foreign nontariff barriers have become an increasingly difficult problem as other governments have increased their direct involvement in their economies. Recent events have created the danger of a new protectionism and a breakdown of the multilateral and nondiscriminatory trading arrangements of the postwar period. We must combat that danger and create a new momentum for cooperation in the field of trade.

The trade bill which you have before you would provide the United States with the ability to undertake such an effort. With the proposed new authority we could attempt to—

- Free up agricultural trade and to cooperate with others to assure adequate world food supplies through more efficient production;
- Come to grips with the unreasonable aspects of regionalism which threaten a proliferation of special trade preferences;
- Rationalize, to the extent possible, 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;
- Strengthen our position in dealing with the problem of unfair trade practices.

We have made substantial progress toward establishing cooperation in the international monetary field on the basis of more flexible, modernized arrangements. Changes in the relationships between major currencies have now made possible a new effort in the trade area. We no longer have to look at trade measures as a corrective for unrealistic exchange rates. We can take a long, hard look at trade for its own sake. To undertake such an effort, we will need the authority that only the Congress can provide.

The need for reform of the international trading system has become clearly evident in our recent problems in the agricultural and energy fields. The agricultural problems of last year were seriously worsened by the misallocation of agricultural resources which had developed over the past decades. For too long some of the special problems associated with agriculture have been used as an excuse to exempt agricultural trade from trade rules. As a result, trade in agriculture has not followed a pattern that would have been dictated by the comparative advantages in agricultural production. A primary objective of the planned multilateral trade negotiations should be to work out cooperative arrangements that will permit the reduction of barriers to agricultural trade. We expect that our trading partners will in fact be willing to join us in some rationalization in agricultural trade.

The shortages in energy that we are presently undergoing bring to the fore another type of problem that is facing the international trading community. Solutions to the energy problem can only come about through the development of new forms of international cooperation. We must seek cooperative international arrangements which will encompass major energy producers as well as consumers, while recognizing that national security considerations in many cases will not permit consumers to rely solely on current market considerations to determine the degree of their reliance on imported energy.

In the years ahead we and others will wish to offer investment opportunities to oil-producing nations, some of whom will have revenues greatly in excess of appropriate current expenditures. The counterpart of these investments will be reflected in current account deficits for the major industrialized countries.

Deficits of this kind will not call for action to redress the trade balance, but the danger is that some will misunderstand the special nature of these deficits and will use them as a basis for urging protectionist action. This danger increases the need for active U.S. participation in future trade negotiations to help prevent such developments.

The Trade Reform Act of 1973, as passed in December by the House of

Representatives, is an excellent vehicle for accomplishing what is needed and needed soon. The House gave this bill its careful consideration, and in the end gave its endorsement of the basic objectives and approaches which were outlined in the President's message accompanying the draft bill submitted last April. The House in a number of important ways changed the authorities contained in the original draft bill, but with only a few exceptions, its changes were positive contributions to the legislation itself and to the policy that underlies that legislation. Some have suggested that the approach in the House bill is unsound because of the delegation of authority that it entails. I am sure, however, that when this committee has grappled with the issue of how we make the American voice count in international negotiations, it will agree that substantial delegation is a practical necessity.

There is one provision of the bill which I wish to discuss with some specificity. As Secretary of the Treasury, I am responsible for administering the countervailing duty law. I find one provision of the bill amending this law inconsistent with the objectives which the administration hopes to achieve.

The practices of governments in encouraging exports have become quite sophisticated. The situation was different in 1897 when the Congress enacted what is basically the present-day countervailing duty law. What is needed now is a set of international principles which will lay down agreed rules as to what is, or is not, acceptable in the export subsidy area. Otherwise each government will approach the problem unilaterally. To me this latter approach should be considered a last resort since it would probably lead to retaliations and counter-retaliations.

In order to facilitate these international negotiations, the House bill authorizes the Secretary to refrain from countervailing, during a temporary 4-year period, when such action would be likely to jeopardize the satisfactory completion of the international negotiations. I agree with this House provision and consider it essential if we are to make a serious effort to achieve a successful multilateral agreement.

However, the House bill restricts this discretionary authority to 1 year in the case of subsidized products from developed countries where the producer is state owned or controlled. I believe, however, that if the multilateral negotiations are to succeed, the Secretary requires a 4-year discretionary authority to refrain from countervailing in all cases where it would jeopardize the success of the negotiations. It is irrelevant for these purposes whether the product exported to the United States is from a nationalized company. The 1-year restriction of the Secretary's discretionary authority should be removed from the bill.

Our trading partners are looking to us for leadership in this negotiation. Without U.S. participation and leadership, the multilateral trade negotiations will give way to regional and bilateral arrangements which will be but prescriptions for economic dislocation, to the detriment of our producers, traders, and consumers. We cannot let this happen. We will not let it happen if appropriate trade legislation is adopted without delay.

Exhibit 81.—Statement by Under Secretary Bennett, April 30, 1974, before the Subcommittee on International Trade of the House Committee on Banking and Currency, concerning the Export-Import Bank

Secretary Shultz and Secretary-designate Simon have asked me to make clear the Treasury's support of the legislative proposals you have before your committee to continue, with amendment, three important programs designed to insure that our Nation derives the maximum benefit from its participation in international economic activities. Since I believe you already have extensive statements from the principal prospective administrators under each of these pieces of legislation—that is, Secretary Dent under the Export Administration Act, Chairman Casey for the Export-Import Bank, and Peter Flanigan for the Council of International Economic Policy—it would probably be most helpful for me to limit myself for the most part to attempting to answer any questions you may have about the proposals. But in view of the fact that your committee is concentrating on the Eximbank today, I would like to start by commenting on several aspects of the Bank's operations as seen from the Treasury.

In the next few years it is likely that the major developed countries will be competing vigorously in developing their export business in order to earn the funds to meet their larger import bills, particularly those for oil. In those circumstances we shall need an Eximbank capable of insuring that U.S. producers for export are not shouldered out of the market by foreign competitors supported by governmental credit assistance. The proposed legislation can serve to reduce that danger in two ways: By authorizing the Bank to extend assistance competitive with that actually being offered by foreign governments; and by placing the Bank and the Treasury in a convincing position to explain to other governments that any attempt by them at extreme credit subsidization will be self-defeating, since the Bank will be empowered—and directed—to meet that competition.

In fact, the other major governments do recognize the dangers of a credit race, and we have discussions underway now to work out practical arrangements not only to prevent such a costly competition from developing but also to bring some current features of governmental credit assistance less out of line with worldwide financial market conditions.

In this connection, you may have read in the papers recently of proposals put forward by officials of the European Community in Brussels to limit the maximum maturity of government-supported export credit to 5 years for most developed countries, to 8½ years for the U.S.S.R. and Eastern European countries, and to 10 years for the developing countries. In the U.S. administration we have welcomed the evident European interest in avoiding undue liberality in government credit assistance, and we recognize that repayment terms as well as the interest rate and amount of such assistance are all relevant. But we have made clear to the Europeans our fundamental rejection of any approach which would involve offering the Soviet Union—or any other developed country—terms more favorable than those offered at other nations. The present total of $289 million of final loans granted on exports to the Soviet Union is small, only 1.7 percent of the Bank's outstanding total of final loan and guaranty commitments. But they have been good business for the United States, not foreign aid. I can see no reason for any discrimination in favor of exports to the Soviet Union; nor in present circumstances do I believe there is any wisdom in proposals to discriminate against those American firms and communities which are trying to gain a fair share of the business being generated by the Soviet Union's increasing imports of nonstrategic items from the West.

Mr. Chairman, I would be happy to attempt to comment further on any other aspects of the Bank's activities in which you would be interested.

Exhibit 82.—Joint Communique on the Fourth Session of the U.S.-U.S.S.R. Commercial Commission, May 22, 1974, Washington, D.C.

The U.S.-U.S.S.R. Commercial Commission established during the summit meeting in May 1972 today concluded its Fourth Session. The session, which took place in Washington, D.C., on May 21–May 22, was, in accordance with the established procedure, chaired by William E. Simon, U.S. Secretary of the Treasury and Chairman of the U.S. Section of the Commission. The Soviet delegation was led by the Acting Minister of Foreign Trade of the U.S.S.R. Mikhail R. Kuzmin.

Other U.S. members of the Commission taking part in the Fourth Session were Secretary of Commerce Frederick B. Dent, Deputy Chairman; Under Secretary of the Treasury Jack F. Bennett; Assistant Secretary of State for Economic and Business Affairs-Designate Thomas O. Enders; Deputy Legal Adviser of the Department of State George H. Aldrich, Counsel; and Acting Deputy Assistant Secretary of Commerce for East-West Trade Lewis W. Bowden, Executive Secretary. Ambassador William D. Eberle, the President's Special Trade Representative, and Helmut Sonnenfeldt, Counselor of the Department of State, also participated in the talks.

Members of the Soviet delegation participating in the discussions in addition to Mr. Kuzmin included A. N. Manzhulo, Deputy Minister of Foreign Trade; V. S. Alkhimov, Deputy Minister of Foreign Trade; V. B. Spandaryan, Member of the GOSPLAN; S. A. Mkrtumov, Commercial Minister, Soviet Trade Representation, Washington, D.C.; V. N. Sushkov, Director of General Administration, Ministry of Foreign Trade; N. V. Nikitkin, Deputy Chairman of the Bank for Foreign Trade; N. V. Zinoviev, Chief of the Department for Trade with the Countries of America, Ministry of Foreign Trade; G. S. Burguchev, Chief of the Legal and Treaties Department, Ministry of Foreign Trade; and R. G. Gorbunov, Executive Secretary of the Soviet Section of the Commission.

The Joint Commission session included two plenary meetings and several working group meetings, which took place in a friendly and constructive atmosphere. There was a comprehensive exchange of views on the development of American-Soviet trade and economic relations. The Parties noted with satisfaction further progress in the development of these relations since the Third Session of the Commission held in Moscow in October 1973.

The Commission agreed on the desirability of expanding and further developing long-term economic, industrial and technical cooperation and discussed means of facilitating such cooperation, including the creation of favorable conditions for business activities, and the exchange of economic and financial data. With these objectives in mind, the Commission recommended to the two Governments the conclusion of a long-term agreement to facilitate economic, industrial and technical cooperation.

It was noted that in 1973, U.S.-U.S.S.R. trade amounted to almost $1.5 billion. The Commission anticipated that bilateral trade would again this year exceed the 1 billion dollar level. This trade volume, if favorable conditions obtained, would permit the countries to surpass the total of 2–3 billion dollars for the three years 1973–75 foreseen by President Nixon and General Secretary Brezhnev in June of last year.

The Commission received reports and exchanged views on the current status of a number of long-term cooperation projects under negotiation between U.S. firms and Soviet foreign trade organizations, including projects in the fields of fertilizer production, exploration for natural gas and oil, timber products, machine building facilities and products of power-consuming industries. In many cases these projects would be carried out on a self-liquidating basis.

The U.S. Section reported that in accordance with its commitment made at the last session of the Joint Commission, the Department of Commerce had referred the Soviet interest in power-consuming production facilities, including aluminum, ferro-manganese and ferro-chromium, and chemicals, to appropriate industry trade associations and directly to potentially interested U.S. companies. The Soviet Section provided the U.S. delegation additional data on several of the projects for transmittal to U.S. firms.

To facilitate trade and cooperation in the field of civil aviation, the two Parties agreed upon the desirability of concluding a Bilateral Airworthiness Agreement.

To aid in the growth of two-way trade, agreement was reached with regard to the appropriate expansion of commercial representation at the present time, and on the need to facilitate suitable office, housing, and working conditions.

The Commission noted that the recent commitment by the U.S. Export-Import Bank to furnish credit for the exporting of U.S. equipment, materials and services for the construction in Moscow of the International Center for Commerce will add to the facilities available to meet the growing need of U.S. and other foreign companies and banks to open offices in Moscow. At present, seventeen (17) U.S. companies and banks have already been authorized to open offices in Moscow.

Both sides agreed to facilitate trade missions and to support participation of their nationals, companies and economic organizations in trade fairs and exhibitions organized in the other country.

The U.S. Section reaffirmed the U.S. Administration's determination to obtain legislation that would provide authority for non-discriminatory tariff treatment for the U.S.S.R., as called for under the U.S.-U.S.S.R. Trade Agreement of 1972, and would continue the availability of U.S. Export-Import Bank financing on a non-discriminatory basis when needed to assist U.S. exporters on their sales to the U.S.S.R.

At the final plenary session, the Commission heard a report on the progress of the U.S.-U.S.S.R. Trade and Economic Council from the two Co-Chairmen: Donald M. Kendall and V. S. Alkhimov. The Council, whose principal task is the promotion of trade and economic cooperation between the U.S. and the U.S.S.R., was established pursuant to the U.S.-U.S.S.R. protocol signed at the Washington summit meeting in June of 1973.

The Commission expressed satisfaction with the results of the Fourth Session, considering the discussions a further major step in the constructive development of solid, long-term, mutually advantageous trade relations. It agreed to convene the next (Fifth) session in Moscow in 1975.

The Soviet delegation members expressed their appreciation for the hospitality extended to them by their American hosts during the delegation's stay in the U.S.

Exhibit 83.—Press release concerning agreement between the United States and U.S.S.R., June 29, 1974, to facilitate economic, industrial, and technical cooperation

The conclusion of a long-term agreement between the United States and the U.S.S.R. to facilitate economic, industrial, and technical cooperation is consistent with the U.S. objective of encouraging the longer term expansion and more balanced growth of United States-Soviet trade. The agreement, which is to remain in force for 10 years, establishes a broad framework for exchanging information and views on important economic undertakings between the two countries, and for encouraging discussions on potential cooperation projects between private U.S. firms and Soviet foreign trade and other organizations. Although similar in substance and intent to other long-term economic cooperation agreements concluded by many Western industrial nations with the Soviet Union, provision in the U.S. agreement with the U.S.S.R. for an annual exchange of economic information and for a series of business facilitation measures are believed to be unique in agreements of this kind. The Joint U.S.-U.S.S.R. Commercial Commission, established pursuant to the communique of May 26, 1972, will monitor the implementation of the agreement.

The long-term agreement is intended to complement the agreement on trade concluded by the United States and the Soviet Union on October 18, 1972. The administration remains fully committed to bringing the 1972 trade agreement into force by obtaining the authority to grant nondiscriminatory tariff treatment to the U.S.S.R. The long-term agreement does not represent any change in the existing system of carefully screening all transactions to ensure that American goods and technology will be exported solely for peaceful purposes.

Trade and long-term cooperation

United States-Soviet trade has developed rapidly since the trade agreement and the lend-lease accord were concluded in October 1972. Bilateral trade in 1973 totaled $1.4 billion, and trade exchanges in 1974 are likely to approximate last year's high level. The two countries are well on their way to surpassing the goal announced in the June 1973 summit communique of achieving a total trade turnover of $2–$3 billion during the 3-year period 1973–1975.

Over the longer term, U.S. machinery and equipment exports to the Soviet Union are expected to grow substantially. The U.S.S.R. is seeking U.S. equipment to help implement large development projects currently being considered for inclusion in its new 5-Year Plan. It has particularly singled out cooperative long-term ventures with U.S. firms, i.e., transactions in which exports of U.S. equipment would be repaid in products of the new facilities, as offering the best chance for large, continuing growth in United States-Soviet trade.

Over the past 2 years, industrial contracts between U.S. firms and Soviet organizations have totaled about $800 million, and will continue to generate substantial U.S. exports in the years ahead. Exports of U.S. machinery, in large part accounted for by deliveries to the Kama Truck plant, will increase from $200 million in 1973 to perhaps $300–$400 million this year. The recently approved Eximbank loan for the Occidental fertilizer project will support $400 million in U.S. exports over the next few years. And five other large contracts will result in an additional $200 million in U.S. exports to the U.S.S.R. U.S. firms and Soviet organizations are currently exploring or negotiating long-term contracts in such diverse areas as automotive production, extraction and processing of high energy consuming minerals, oil and gas development, electronics, chemicals, timber products, consumer goods production, and the improvement of tourist facilities. The long-term economic cooperation agreement should help further to define and broaden areas for mutually beneficial long-term cooperation in the future between U.S. companies and Soviet organizations.

Main provisions

Long-term cooperation.—The agreement provides that both governments will use their good offices to facilitate the purchase and sale of machinery and equipment for the construction, modernization and expansion of production facilities in the two countries; trade in raw materials, agricultural products, finished products and consumer goods and services; and the purchase, sale, and licensing of patent rights and proprietary industrial know-how, designs and processes. It also provides for cooperation in the training and exchange of specialists, and for joint efforts, through the export of machinery and equipment, in the construction of industrial and other facilities in third countries. The economic undertakings foreseen by this agreement are not limited to long-term, large-scale projects; shorter term transactions by small- and medium-sized U.S. firms are also encouraged. It is also anticipated that the U.S.S.R. will enter into new cooperation projects in the United States.

Information exchange.—A most important provision of the agreement provides for a working group of national experts to meet annually to exchange data and forecasts on basic economic, industrial and commercial trends in the two countries. These regular information exchanges should assist U.S. firms and Soviet foreign trade and other economic organizations in determining the fields of cooperation most likely to provide a basis for mutually beneficial contracts, and in facilitating their long-term business and economic planning. The first meeting of these experts is expected to take place before the end of this year.

Business facilitation.—To help promote long-term economic cooperation between the two countries, the agreement also provides that each party undertake to facilitate the working and operating conditions of business representatives of the other on its territory. Article 4 of the agreement, therefore, notes that both parties will facilitate, as appropriate, the acquisition of suitable business and residential premises for commercial firms and organizations and their employees, the import of essential office equipment and supplies, the hiring of staffs, the issuance of visas, and the travel by commercial representatives for business purposes.

Seventeen U.S. firms have now received Soviet accreditation to open offices in Moscow, and more than half of them have already done so. With the long-term expansion of trade and economic relations foreseen by this agreement, additional U.S. firms are likely to seek such accreditation in the future. The construction of an international trade center complex in Moscow, in which U.S. firms are participating, will add significantly to the commercial facilities available to American and other foreign companies in the U.S.S.R.

Developing Nations Finance

Exhibit 84.—Statement by Deputy Assistant Secretary Larsen, July 24, 1973, before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations, on collection and reporting of delinquent foreign debts owed to the United States

Mr. Chairman and members of the subcommittee, I am pleased to have the opportunity to review with you this morning the progress made since the last hearing in the collection and reporting of delinquent foreign debts owed to our Government. As a relative newcomer to the Treasury Department, it is a privilege for me to participate in what you, Mr. Chairman, once called a "unique partnership" between the Congress and the executive in this area of foreign debt collection. I fully share your view that the continued existence of arrearages on foreign debts places an unfair burden on the American taxpayer and, at the same time, brings into question the creditworthiness of delinquent foreign governments. Therefore, Mr. Chairman, I can assure you that the Treasury Department will continue giving the same high priority to the matter of foreign debt arrearages as has particularly been the case during the last 3 years.

In line with your request, I shall first highlight our recent accomplishments, then review the activities of the National Advisory Council and the general debt arrearage situation, and conclude by bringing you up to date regarding the progress we have made in the collection and reporting of data on foreign debts.

Recent accomplishments

Let me start by highlighting the progress which we have made in the past several months. In terms of actual collection of foreign debts, a number of governments have settled or significantly reduced their obligations to U.S. agencies. For example, under an agreement signed on April 30, the Government of Japan has prepaid in full its obligation stemming from our post-World War II economic assistance to that country.

In the area of debt arrearages, Paraguay and Tunisia have paid the entire principal of their long outstanding indebtedness on foreign military sales. We have reached an agreement with Haiti for the repayment of a post-World War II debt resulting from the disposal of surplus property. Brazil has paid the Army over $3 million on a military sales account which was previously reported to be in arrears. The Dominican Republic has paid several million dollars on its accounts due to various agencies and is now current.

Although progress in some instances has been less than satisfactory, major claims continue to receive strong consideration. Negotiations to reschedule the various obligations owed by the Chilean Government to the United States and other creditor countries are in progress—Treasury led the U.S. delegation to the creditors meeting in Paris less than 2 weeks ago. Our goals and those of the other creditor nations at that meeting were to press the Government of Chile to adopt adequate stabilization policies to enhance our long-range prospects of collecting all debts owed us.

Some recent progress has been made on Iran's lend-lease and surplus property debts. In March, the Iranian Government paid approximately $750,000 on certain accounts, and in May it indicated that it would pay an additional $2 million on its debt. However, differences still remain with regard to the status of some $12 million in delinquent interest. Nevertheless, negotiations continue with the Iranian Government and we are hopeful that an appropriate settlement will soon be reached.

The status of the Chinese post-World War II debt is presently being reviewed within the executive branch. Finally, after a 5-year hiatus, negotiations concerning the Czechoslovak debt are expected to begin in the near future.

Turning to the status of World War I debts, a National Advisory Council working group has been reviewing this problem. On the basis of the work of this staff committee, recommendations will be formulated, and I expect we will soon be in a position to report to you on this matter.

National Advisory Council activities

Coordination and monitoring of agency collection efforts by the National Advisory Council have continued unabated since we last met with your subcommittee. One of the essential considerations applied by the National Advisory Council in reviewing U.S. Government and multilateral loan proposals is whether or not a particular country has obligations in arrears to the U.S. Government.

Review and policy coordination by the National Advisory Council was an important element in achieving collection on a number of overdue debts in recent months. We are convinced that our work over the past few years—strongly supported by this subcommittee—has resulted in a greater awareness by recipient countries of the seriousness with which the U.S. Government views debt arrearages and the importance it places on prompt payments in considering new loan requests.

A weekly debt status report is submitted to the Council by the Treasury Department to assure that each potential recipient is reviewed in light of its creditworthiness. In addition, the Council has continued its semiannual review of the status of all outstanding foreign debts. The most recent semiannual meeting was held on June 24 when we reviewed in considerable detail the various achievements and problems connected with the collection of debts owed to each lending agency. The interagency coordination through this forum does much to assure that our foreign debt collection activities will continue to receive a high priority.

Debt arrearages

When Assistant Secretary Hennessy testified before your subcommittee in March, we had only preliminary figures on arrearages as of December 31, 1972. These data, which are now final, show $639 million in arrears excluding, of course, World War I debt. This figure compares with the $678 million reported in arrears as of June 30, 1972. The improvement in the debt picture is mainly due to the elimination of the Soviet arrearage on lend-lease which evolved from last October's settlement. Partially offsetting this, however, was the $50 million increase in Chilean debt which occurred between June and December of last year.

Long-term arrearages.—To place these arrearages in perspective, let me analyze briefly the composition of the debt. On December 31, 1972, the long-term component of the arrearages totaled $334 million. Almost $300 million of this amount was owed by five countries—Chile, China, Cuba, Egypt, and Iran. This list of countries illustrates the nature of the major debt arrearages. They either pertain to unsettled World War II accounts, such as with China and Iran, or result from more recent political problems, such as those occurring with Cuba, Egypt, and Chile. The most serious debt arrearage problem we have at this time is with Chile. As of December of last year approximately $86 million of a total of $920 million outstanding debt was in arrears. By March the 90-day due and unpaid debt of Chile had risen to almost $110 million.

Short-term and accounts receivable arrearages.—The largest portion of the short-term credits and accounts receivable in arrears, which together totaled $305 million at the end of last year, can be attributed to unique political-military events in the post-World War II period. As has been reported to the subcommittee on previous occasions, approximately $205 million of these claims represent logistical support provided to our allies during the Korean conflict and to the United Nations during its Congo operations of the early sixties. Another sizable segment of the accounts receivable, some $25 million, represents lend-lease claims against China and India. Although I hope that satisfactory settlement will be reached concerning these claims, I am sure you appreciate, Mr. Chairman, the complex political considerations involved in collecting these arrearages.

With your permission I offer the December 31, 1972, arrearage table for inclusion in the record.

Summary of arrearages on foreign indebtedness to U.S. Government agencies as of December 31, 1972

[In thousands of dollars or dollar equivalents]

Agency	Total	Long-term credits	Short-term credits	Accounts receivable
Total, all agencies	639,120	334,165	9,954	295,001
Department of Agriculture:				
Agricultural Stabilization and Conservation Service	6,037	6,037		
Commodity Credit Corporation				
Department of Commerce:				
National Bureau of Standards	21			21
National Oceanic and Atmospheric Administration				
Department of Defense:				
Civilian:				
Canal Zone Government	3,051			3,051
Panama Canal Company	3,286			3,286
Military:				
Defense Security Assistance Agency	4,043	4,043		
Department of the Air Force	15,716		38	15,678
Department of the Army	208,534		9,506	199,028
Department of the Navy	21,647			21,647
Department of the Interior:				
Bureau of Mines	(*)			(*)
Department of Justice:				
Immigration and Naturalization Service	125			125
Department of State:				
Agency for International Development	84,103	76,704		7,399
Office of the Secretary	409		409	
Overseas Private Investment Corporation				
Department of Transportation:				
Federal Aviation Administration	111			111
U.S. Coast Guard	104			104
Department of the Treasury:				
Bureau of Accounts	143,441	118,301		25,140
Independent agencies:				
Atomic Energy Commission	71			71
Export-Import Bank	144,347	129,015		15,332
General Accounting Office	56			56
Social Progress Trust Fund (Inter-American Development Bank, trustee)				
Tennessee Valley Authority				
U.S. Postal Service	4,018	66		3,952
U.S. Information Agency				
Adjustment for Indonesian debt rescheduling				

*Less than $500.

Treasury debt reporting

Finally, let me turn briefly to the collection and reporting of data pertaining to foreign debts, which are the responsibility of the Treasury Department. As the subcommittee is well aware, the Treasury has accomplished a major expansion of its reporting system on foreign credits since these hearings began in 1970. In response to the interest of the subcommittee in obtaining a complete account of foreign debts owed to the U.S. Government, we have over the past 2 years developed and put into operation an entire new segment of our reporting system, to provide for the first time data on short-term U.S. Government credits to foreigners and on accounts receivable from foreigners. Thus, as Assistant Secretary Hennessy has previously stated, we are now able to give you complete figures on foreign debts of all maturities to U.S. Government agencies, as reported to us by the responsible agencies. We have previously provided these data to the subcommittee as of June 30, 1972.

These data are included for the first time in the published semiannual report "Foreign Credits by the United States Government," which we expect to submit to the Congress within 2 weeks. Data for subsequent semiannual periods will be made available to the subcommittee as they become available, and will be included in future semiannual reports to the Congress.

With the completion of this major reporting innovation, we have turned our attention to the solution of other problems which exist in the reporting system in order to speed up the reporting and to minimize the burden on the reporting agencies to the extent possible.

This, Mr. Chairman, completes my report to you on the successes and some of the problems we have had in recent months in our effort to improve the collection of foreign debts and to improve our system of foreign debt data reporting. I shall be happy to answer any questions you or members of the subcommittee may have.

Exhibit 85.—Statement by Assistant Secretary Hennessy, September 6, 1973, before the Senate Finance Committee, concerning the proposed Export Development Credit Fund

I welcome this opportunity to appear before the Senate Finance Committee in support of legislation for an Export Development Credit Fund, as proposed in Senate bill S. 2335. The Department of the Treasury supports the basic concept of the proposed fund, but we would like to suggest some modification in its operational aspects, as I will outline.

In the bill as presented, both in the House and Senate versions, the proposed fund has been justified in terms of serving two major objectives of U.S. foreign economic policy: (1) It will serve as an instrument for expanding U.S. exports into new markets in the low-income countries, and (2) it will be a means of contributing to the economic development of these countries. In addition to these two objectives, I would add a third of growing importance to us; that is, the fund will aid in the development of new and continuing sources of raw materials and fuels for the American economy. While the fund is not designed to contribute directly to development of new sources of raw materials, it will indirectly do so through provision of needed transportation, communications, and power equipment to countries which have extensive natural resources to bring to the world market. The United States currently purchases 28 percent of its imports from these low-income countries, a majority of which are raw materials, and the prospects are good for further increases. The development of export markets and additional sources of raw materials go hand in glove, for as we buy more from them, they have the effective demand to buy more from us.

In stimulating greater exports to the low-income countries, the United States must have reasonable assurance that we will be repaid and that these new export markets will be sustained. I will address briefly each of two questions: The first on the market development potential in the low-income countries, and the second on the prospects for repayment.

Market development potential

What is the market development potential in the low-income countries?

Our analysis of U.S. trade with the lowest income countries shows that the U.S. market share in these countries is relatively small and has been declining during recent years. Our export performance has been particularly weak relative to our major competitors. Part of this may be explained by distance and traditional relationships, but it must be recognized that a large proportion of the imports of these countries are financed by official foreign credits, and U.S. credits to these countries have been growing much more slowly than those of our competitors.

The question arises, of course, as to whether these countries have the absorptive capacity to import goods and services of the magnitude envisioned under the fund. An initial lending volume of $675 million annually would amount to about 2 percent of the total 1972 merchandise imports of the 67 countries involved. Another standard, based on estimated total annual investment of $47 billion (18 percent of GNP of $260 billion) in these countries, exclusive of Communist nations, indicates the annual flow would represent a little more than 1 percent of investment in 1972. Based on these criteria, it would certainly seem possible for these countries to increase their imports by the $675 million which would be added through the fund.

In determining which products would be provided assistance under the fund, careful consideration would be given to those areas which offer the best prospects for expanding markets for U.S. products. Presently, U.S. exports to the 12 largest purchasers in the group in terms of broad categories can be broken down as follows: 31 percent agricultural goods, 28 percent in raw and intermediate materials, and 41 percent in manufactured machinery and equipment. However, it should be clarified that the proposed EDCF would not finance agricultural products, since there are already adequate programs to handle these exports. We can export more manufactured products to the low-income countries if we offer terms that make sense in view of their own economic situation; we believe that the proposed fund would help us to do that.

Prospects for repayment

Turning now to the second question: What are the prospects that the recipients of these proposed credits will be able to repay the United States?

The combined external debt outstanding of the 67 developing countries with GNP's of less than $375 per capita amounted to $39 billion as of December 31, 1970. Nearly $20 billion of this amount was concentrated in four countries (South Korea, Indonesia, India, and Pakistan). The remaining 50 percent of the outstanding debt was distributed among 63 countries.

The concentration of a considerable portion of the total LDC debt in a relatively small number of countries does not necessarily mean that these few countries will be unable to meet their obligations nor that the remaining LDC's will be free of debt problems. The immediate cause of LDC debt problems, where they in fact exist, is due to the inadequate ability of the economy to generate sufficient foreign exchange to service the debt obligations. The reasons for this inadequacy vary but may be attributable to unsophisticated cost-benefit analysis of projects, ineffective debt management policies, insufficient efforts to promote exports, or alternatively, may be due to factors entirely beyond the control of the LDC's themselves, such as deteriorating terms of trade or declining aid flows.

It is generally in the interest of the United States to finance exports to developing countries when there is a reasonable assurance of repayment in accordance with agreed schedules. This, of course, poses the question of how one obtains such reasonable assurances. No single indicator exists of the ability of countries to service their debt obligations although reference is frequently made of the debt service ratio, which compares a country's debt service with its earnings from merchandise exports or from exports of goods and services. The fact is that the debt service ratio may be quite misleading. A country with a low debt service ratio may have a limited capacity to absorb additional debt if it pursues unsound financial and economic policies, while a country with a high debt service ratio may well be able to take on additional obligations if it is actively and successfully attempting to promote exports, pursuing sound internal policies, and promoting a favorable investment climate. Mexico provides us with an outstanding example of a country in the latter situation. In 1966 Mexico's debt service obligations absorbed 54 percent of its current account earnings, a ratio considerably higher than those typically found in countries having difficulties meeting their obligations. Brazil is another example. After rescheduling its debts in 1961 and again in 1964, Brazil has been following sound financial policies, attracting high inflows of foreign private and public investments, and is today considered a sound credit risk.

Thus, with the terms proposed in the Senate bill and with careful attention to the nature and uses of the commodities financed under the proposed fund, we believe that the low-income countries will be able to offer us reasonable assurance of repayments. It is worth noting that the developing countries are currently paying out about $7 billion annually to service outstanding external debt. Of this total the United States is receiving about a third, or about $2 billion, per year. The United States is currently receiving annual repayments on AID's development loans alone of $300 million. This will rise to $600 million in the next decade.

Suggested modifications

I would like to turn now to some suggestions for modifying the provisions regarding the proposed fund in order to make its operations more consistent with sound fiscal practices.

First, in regard to its budgetary impact (section 801 (d)), we note that the bill treats the fund in the same manner as the Export-Import Bank operations, which excludes it from the budget. We recommend that the bill be amended to provide for the inclusion of its costs in the budget totals, and also for the financing of the fund through regular Treasury securities.

Second, we recommend elimination of the language in section 801 (b) which authorizes the refinancing of U.S. export credits. This authority would conflict with the use of this fund for market development purposes.

Third, we want to ensure that the intent of the bill is to subject both the amount of the borrowing and the use of the reflows for interest subsidies to the annual appropriations process.

Conclusion

In brief, I would like to add the support of the Treasury Department to the proposed Export Development Credit Fund. With the few modifications I have suggested, it is our view that the proposed fund makes good economic sense both for the United States and for the low-income countries.

Exhibit 86.—Statement by Assistant Secretary Hennessy, October 29, 1973, before the Subcommittee on International Affairs of the Senate Finance Committee, on international debts owed the United States

Mr. Chairman, I appreciate the opportunity to be here today to discuss the international debts owed the United States and I welcome the interest shown by the committee in the subject. It is a matter of considerable importance, affecting our budget, our balance of payments, and our bilateral relations with other countries.

The collection of foreign debts has been of serious concern to the executive branch, and over the past 4 years a vigorous effort has been undertaken to improve performance in this area. A particular effort has been directed towards improving the reporting and monitoring of all foreign debts, and towards collecting delinquent debts. The Treasury Department has recently completed a major expansion of its debt-reporting system, including short-term credits and accounts receivable as well as long-term debts in its reports. The National Advisory Council now holds semiannual reviews of debt arrearage problems. And the Department of State has redoubled its coordination efforts with the various Government agencies to ensure prompt payment of due debts. During the past 3 years, Treasury and State have appeared seven times before the different committees of the Congress to report on the result of the increased efforts to collect outstanding delinquent debts. Major progress has been made.

The foreign debts owed the United States have all risen from activities of the U.S. Government in the 20th century. They are of two sorts—the debts which have arisen under Government activities during and since World War II, and the so-called World War I debts.

Post-World War II debts

The Government has engaged in a number of foreign credit programs during and since World War II, as authorized by Congress. These programs have resulted in the extension of $54.5 billion of credit to foreigners. The most important of these programs have been (1) the Foreign Assistance and related acts, under which about $16.2 billion has been loaned abroad, (2) the Agricultural Trade Development and Assistance Act, under which $8.9 billion has been extended, and (3) the Export-Import Bank Act, under which $18.3 billion has been loaned. (I will cover shortly credits extended under the authority of the Lend-Lease Act, which you have also asked us to comment on.)

At present we are owed a total of $33 billion in outstanding principal, $24 billion, or 73 percent, of which is due from less developed countries (LDC's). The balance is owed by industrialized nations. In examining the geographical distribution of LDC debt, we find there is a large degree of concentration in the poorest countries, who have been the largest recipients of foreign assistance. India with $5.8 billion and Pakistan $2.2 billion account for nearly all of the debt in South Asia. Western Hemisphere countries owe us about $6.2 billion, with the largest debtors being Brazil ($1.7 billion), Chile ($0.9 billion), and Colombia ($0.8 billion); East Asia and Near East countries owe $4.1 billion and $4.5 billion, respectively, with the largest debtors in these regions being Indonesia and Korea (about $1 billion each) and Turkey ($1 billion).

Western European countries owe the United States a total of $6.3 billion with the United Kingdom accounting for $3.8 billion, nearly 60 percent of the Western European total.

Almost all of the vast sums loaned during and since World War II have been and are being repaid on schedule. Out of the total loaned since World War II, only about $662 million, or 1 percent, was in arrears as of June 30, 1973, the latest figures on total outstanding debt available. The largest portion of these arrearages, some $367 million, are from long-term loans owed by four countries—Chile ($124.5 million), Egypt ($42.3 million), Cuba ($54.0 million), and Iran ($34.7 million).

Next in order of magnitude is the approximately $294 million that was in arrears on accounts receivable owed to various agencies as of June 30, 1973. By far the largest portion of these arrears, some $200 million, can be attributed to logistical support provided by the United States during the Korean conflict in the early 1950's. Another $25 million is in arrears on loans made under the Lend-Lease Act and other war account settlements. Twenty-three million is delinquent on financing of military sales, and $21 million under Eximbank programs.

As I stated earlier, the executive branch has been and continues to be actively engaged in an effort to collect debts. Let me highlight the progress we have made in recent months. A number of governments have settled or significantly reduced their obligations to U.S. agencies. For example, under an agreement signed on April 30, the Government of Japan has prepaid in full its $175 million obligation stemming from our post-World War II economic assistance to that country. Another example is the assignment back to the United States of our original grant to the European Monetary Agreement. At the end of 1972, at the urging of the U.S. Government, the OECD terminated the EMA, which had been in operation since 1958. The Treasury Department felt that the original purpose of the EMA had been substantially achieved and thus it should be terminated. After several years of discussions, the European members decided last December to terminate the agreement and return to the United States its contribution and earnings thereon. As a result of the termination of the EMA, the United States received a total of $355 million, which represents the initial U.S. contribution of over $270 million and accumulated interest of $84 million.

Overall, since the late 1950's we have received prepayments from the Europeans on their post-World War II debts totaling $2.2 billion.

In the area of debt arrearages, Paraguay and Tunisia have paid the entire principal of their long outstanding indebtedness on foreign military sales. We have recently reached an agreement with Haiti for the repayment of a long-disputed post-World War II debt resulting from the disposal of surplus property. Brazil has paid the Army over $3 million on a military sales account that was previously reported in arrears, and the Dominican Republic has paid several million dollars and is now current.

Some recent progress has been made in Iran's lend-lease and surplus property debt. In March, the Iranian Government paid approximately $750,000 on certain accounts and in May it indicated that it would pay an additional $2 million on its debt. However, differences still remain with regard to the status of some $12 million in delinquent interest, which are being worked upon.

Finally, after a 5-year hiatus, negotiations have begun with the Czechoslovak Government regarding their debt with reasonable expectations of solution.

In sum, progress is being made. And we are optimistic that many of the remaining delinquencies can be eliminated. For example, the changed situation in Chile has markedly improved prospects for repayment of that country's $134 million arrearage to the United States.

LDC debt burden.—While collection experience on the post-World War II credits has been good, I would like to mention a potential problem, which we are beginning to encounter with increasing frequency and that is of mounting concern to the Treasury, namely, the very large and growing debt of less developed countries.

As of December 31, 1971, the last date for which composite data are available, the 81 developing countries had a total external public debt outstanding of $79.2 billion, of which $58.3 billion had been disbursed. In recent years LDC debt levels have been growing very rapidly, more than doubling between 1965 and 1971, and increasing almost 15 percent between 1970 and 1971. This is a faster rate than that at which their exports have been growing and so there has been a marked deterioration in the debt service ratio, that is, their percentage of export receipts needed to amortize yearly debt service. About $24 billion or 30 percent of this debt of $79.2 billion is owed to the United States.

Debt service payments totaled $8.1 billion in 1972 and are also growing rapidly, as grace periods on loans made in the early 1960's are running out. Consequently, a number of developing countries are likely to experience debt-servicing difficulties in the future unless their trade balance improves and/or capital is made available in increasing amounts and on easier terms.

Because of our large financial interest in this matter, it is important that we avoid massive reschedulings or defaults in the future. At the same time we cannot stop selling goods and services to these countries, not only because they are essential for their economic development, but also because the United States needs these export markets. The need to tailor more closely the terms of export credits to ability to repay was the major motivation in the executive branch's support before the Congress and the Finance Committee of the proposed Export Development Credit Fund.

Lend-lease debts.—Credits extended under the authority of the Lend-Lease Act show a similar history of repayment combined with some remaining arrearages. Lend-lease was conceived and executed "to promote the Defense of the United States . . . as provided for in the lend lease law." The program was inaugurated on March 11, 1941, as our peacetime contribution to nations aiding our defense by resisting Axis aggression. After the United States was attacked, lend-lease became an instrument by which we strengthened our allies according to the strategic plans of the Allied Nations as a whole. Unlike the method used to provide aid in the First World War, where the United States loaned its allies cash which they used to purchase goods and services, lend-lease provided the goods and services directly. The Lend-Lease Act provided that the terms and conditions of repayment were to be those "which the President deems satisfactory"—a flexible method which was clearly established to reflect the extraordinary circumstances under which these agreements were made and the special situation they were designed to meet.

In settling the lend-lease accounts with our World War II allies, the United States did not request compensation for lend-lease goods lost, destroyed, or consumed during the war, nor for combat items such as tanks or aircraft in the custody of the armed forces of our allies at the end of the war. Payment was requested for the value of postwar civilian lend-lease goods in the possession of other countries at V–J Day and for lend-lease goods delivered after V–J Day. The general guidelines for credit settlements of the lend-lease accounts were established by the National Advisory Council (Action No. 40, February 27, 1946).

The arrearages on our lend-lease accounts totaled $92 million as of June 30, 1973. The bulk of this sum was owed by the Republic of China ($86 million).

Mr. Weintraub of State will provide details on lend-lease settlements in his statement, including that signed with the Soviet Union on October 18, 1972.

World War I debts

Finally, let me say a word about the so-called World War I debts.

During World War I, the United States made loans to its allies by purchasing short-term and demand obligations of the respective governments under the authority of the First, Second, and Victory Liberty Bonds Acts.

In 1921 and 1922 Europe was in a state of financial disorder. No debtor nation could have paid its debt to the United States had payment been demanded and many were unable to pay the interest that was due. Recognizing this predicament, Congress created the World War Foreign Debt Commission on February 9, 1922, to negotiate funding agreements with the debtor governments, under which their obligations would be refunded "in such form and on such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as would be deemed for the best interest for the United States of America." However, the statute specifically stated that it did not authorize "cancellation of any part of the indebtedness except through payment thereof." By 1926, the Commission had negotiated settlement of the World War I debts of all foreign governments.

Payments on Allied debts were made according to schedule until 1931, when the world depression led to the suspension of payments. On June 20, 1931, President Hoover proposed, subject to congressional approval, suspending during fiscal year 1932 all payments due the United States by the debtor government, provided a similar step was taken by European creditor governments regarding payments of intergovernmental debts and war reparations due them. On December 23, 1931, by joint resolution, Congress authorized the Secretary of the Treasury to conclude agreements for this moratorium proposal. This act also expressly provided it to be against the policy of Congress that any indebtedness be canceled or reduced. The amounts due in fiscal 1932 were to be repaid over a 10-year period beginning July 1, 1933, at an interest rate of 4 percent. All of the governments indebted to the United States, except Yugoslavia, accepted the proposal, and agreements were concluded with each government in 1932.

After the moratorium expired, Germany paid no further reparation, and all debtor governments except Finland then refused to make payments, or made only token payments.

In 1941 the United States notified most of the debtor nations that, in view of wartime conditions, we would discontinue our practice of sending them bills while at the same time we emphasized that this constituted no waiver on the part of the United States.

As of December 31, 1972, the outstanding World War I debt, including unmatured principal and interest, totaled $24.9 billion, of which $20.2 billion was delinquent. The largest due and unpaid accounts are with the United Kingdom ($8.8 billion), France ($6.1 billion), Germany ($1.5 billion), and Italy ($1.4 billion).

While the countries which have large World War I obligations to us have never denied the juridical validity of their debts, they have linked payment to us to the condition of simultaneous payment of World War I reparations by Germany to them in amounts which roughly offset their war debts to the United States.

Resolution of the problem of governmental claims against Germany arising out of World War I was deferred "until a final general settlement of this matter" by the London Agreement on German external debts, to which the United States is a party, concluded in 1953. This agreement was ratified by the U.S. Senate and has the status of a treaty.

While the U.S. Government has never recognized that there was any legal connection between the World War I obligations owed us and the reparation claims on Germany, there is a linkage in reality, which makes the issue as such a sensitive political as well as an economic one.

After recent testimony before the House Subcommittee on Foreign Operations and Government Information, it was agreed that the National Advisory Council would make a study and present concrete proposals on this debt. We expect to reach conclusions and make recommendations in the near future.

This, Mr. Chairman, concludes my prepared statement. I shall be glad to answer any questions you or members of the subcommittee may have regarding international debts owed the United States.

Exhibit 87.—Message from President Nixon to the Congress, October 31, 1973, on international development assistance

As their role in conveying financial assistance to developing countries has steadily enlarged in recent years, multilateral lending institutions have become vital to our hopes for construction of a new international economic order.

One of the most important of these institutions is the International Development Association, a subsidiary of the World Bank that provides long-term loans at low interest rates to the world's poorest nations. During the 13 years of its operation, IDA has provided over $6.1 billion of development credits to nearly 70 of the least developed countries of the world. Two dozen countries have contributed funds for this effort.

By next June, however, the International Development Association will be out of funds unless it is replenished. As a result of an understanding reached in recent international negotiations, I am today proposing to the Congress that the United States join with other major industrialized nations in pledging significant new funds to this organization. Specifically, I am requesting that the Congress authorize for future appropriation the sum of $1.5 billion for the fourth replenishment of IDA. Initial payments would be made in fiscal year 1976 and the full amount would be paid out over a period of years.

I am also requesting that the Congress authorize an additional $50 million for the Special Funds of the Asian Development Bank. The Bank is one of the major regional banks in the world that complements the work of the International Development Association and the World Bank.

Legislation for both of these authorities is being submitted to the Congress today by the Secretary of the Treasury.

Strengthening the international economic system

Just over a year ago, in September 1972 at the annual meeting in Washington of the International Monetary Fund and the World Bank, I stressed the urgent need to build a secure structure of peace, not only in the political realm but in the economic realm as well. I stated then that the time had come for action across the entire front of international economic problems, and I emphasized that recurring monetary crises, incorrect alignments, distorted trading arrangements, and great disparities in development not only injured our economies, but also created political tensions that subvert the cause of peace. I urged that all nations come together to deal promptly with these fundamental problems.

I am happy to be able to report that since that 1972 meeting, we have made encouraging progress toward updating and revising the basic rules for the conduct of international financial and trade affairs that have guided us since the end of World War II. Monetary reform negotiations, begun last year, are now well advanced toward forging a new and stronger international monetary system. A date of July 31, 1974, has been set as a realistic deadline for completing a basic agreement among nations on the new system.

Concurrently, we are taking the fundamental steps at home and abroad that will lead to needed improvement in the international trading system. On September 14, while meeting in Tokyo, the world's major trading nations launched new multilateral trade negotiations which could lead to a significant reduction of world trade barriers and reform of our rules for trade. The Congress is now considering trade reform legislation that is essential to allow the United States to participate effectively in these negotiations.

Essential role of development assistance

While there is great promise in both the trade and monetary negotiations, it is important that strong efforts also be made in the international effort to support economic development—particularly in providing reasonable amounts of new funds for international lending institutions.

A stable and flexible monetary system, a fairer and more efficient system of trade and investment, and a solid structure of cooperation in economic development are the essential components of international economic relations. We must act in each of these interdependent areas. If we fail or fall behind in one, we weaken the entire effort. We need an economic system that is balanced and responsive in all its parts, along with international institutions that reinforce the principles and rules we negotiate.

We cannot expect other nations—developed or developing—to respond fully to our call for stronger and more efficient trading and monetary systems, if at the same time we are not willing to assume our share of the effort to ensure that the interests of the poorer nations are taken into account. Our position as a leader in promoting a more reasonable world order and our credibility as a negotiator would be seriously weakened if we do not take decisive and responsible action to assist those nations to achieve their aspirations toward economic development.

There are some two dozen non-Communist countries which provide assistance to developing countries. About 20 percent of the total aid flow from these countries is now channeled through multilateral lending institutions such as the World Bank group—which includes IDA—and the regional development banks.

These multilateral lending institutions play an important role in American foreign policy. By encouraging developing countries to participate in a joint effort to raise their living standards, they help to make those countries more self-reliant. They provide a pool of unmatched technical expertise. And they provide a useful vehicle for encouraging other industrialized countries to take a larger responsibility for the future of the developing world, which in turn enables us to reduce our direct assistance.

The American economy also benefits from our support of international development. Developing countries today provide one-third of our raw material imports, and we will increasingly rely upon them in the future for essential materials. These developing countries are also good customers, buying more from us than we do from them.

New proposals for multilateral assistance

Because multilateral lending institutions make such a substantial contribution to world peace, it must be a matter of concern for the United States that the International Development Association will be out of funds by June 30, 1974, if its resources are not replenished.

The developing world now looks to the replenishment of IDA's resources as a key test of the willingness of industrialized, developed nations to cooperate in assuring the fuller participation of developing countries in the international economy. At the Nairobi meeting of the World Bank last month, it was agreed by 25 donor countries to submit for approval of their legislatures a proposal to authorize $4.5 billion of new resources to IDA. Under this proposal, the share of the United States in the replenishment would drop from 40 percent to 33 percent. This represents a significant accomplishment in distributing responsibility for development more equitably. Other countries would put up $3 billion, twice the proposed U.S. contribution of $1.5 billion. Furthermore, to reduce annual appropriations requirements, our payments can be made in installments at the rate of $375 million a year for 4 years, beginning in fiscal year 1976.

We have also been negotiating with other participating nations to increase funds for the long-term, low-interest operation of the Asian Development Bank. As a result of these negotiations, I am requesting the Congress to authorize $50 million of additional contributions to the ADB by the United States—beyond a $100 million contribution already approved. These new funds would be associated with additional contributions of about $350 million from other nations.

Meeting our responsibilities

In addition to these proposals for pledging future funds, I would point out that the Congress also has before it appropriations requests for fiscal year 1974—a year that is already one-third completed—for bilateral and multilateral assistance to support our role in international cooperation. It is my profound conviction that it is in our own best interest that the Congress move quickly to enact these pending appropriations requests. We are now behind schedule in providing our contributions to the International Development Association, the Inter-American Development Bank, and the Asian Development Bank, so that we are not keeping our part of the bargain. We must show other nations that the United States will continue to meet its international responsibilities.

All nations which enjoy advanced stages of industrial development have a grave responsibility to assist those countries whose major development lies ahead. By providing support for international economic assistance on an equitable basis, we are helping others to help themselves and at the same time building effective institutions for international cooperation in the critical years ahead. I urge the Congress to act promptly on these proposals.

Exhibit 88.—Statement by Secretary Shultz, November 19, 1973, before the Senate Foreign Relations Committee, on replenishment of the International Development Association and the Asian Development Bank

I am happy to be here this morning to support the President's requests for new funding authority for the International Development Association (IDA) and the Asian Development Bank (ADB). My statement will deal principally with the broad framework of international economic cooperation within which the President put these requests forward in his message on October 31. For further background, you have before you the special reports of the National Advisory Council on the IDA and the ADB proposals, respectively.

This hearing is the culmination of a major effort we are carrying out not only with this committee but with other relevant committees to keep the Congress fully informed and involved in the formulation of U.S. policy and participation in all of the international development lending institutions—the World Bank group, the Inter-American Development Bank, and the Asian Development Bank. I pledge to you that this effort will continue beyond this hearing, so that we may mutually benefit from a greater flow of information and an ongoing, frank dialogue. In a real sense the proposals to be discussed today have benefited from this consultative process.

The advantages of a multilateral approach to development are well understood by this committee. In the proposals before you today, financial contributions will be provided to these two banks first of all on the basis of a fair share from each of the developed country members—shares that have been renegotiated to reflect equitably the present relative economic strengths of industrial nations.

Second, all assistance will be provided in the form of loans which will finance sound development projects in developing nations—particularly in the poorest of those nations. The money will be spent not only for highways, dams, farming and industrial developments but for programs such as health, education, and population programs that directly work with and for the people of poverty-stricken nations.

Third, because of their long experience, unmatched pool of technical expertise drawn from all countries, and freedom from political considerations, the International Development Association and the Asian Development Bank are in a strong position to influence developing countries to become both more productive and more self-reliant, by improving their overall economic programs and policies.

Finally, these institutions form a part of an international system of cooperation and agreed-upon rules of economic behavior, which we are attempting to improve and strengthen.

Most of you will recall this as a principal theme sounded by President Nixon here in Washington at the 1972 meeting of the World Bank and Monetary Fund. He pointed out clearly that a new international economic order—based on updated rules, international cooperation, and a stronger institutional framework—is a basic part of creating a secure structure of peace.

International monetary reform, international trade and investment, and improving the quantity and quality of international development assistance are all aspects of the same problem of constructing an endurable system of economic intercourse. Because they are inextricably linked, because we must negotiate in all these fields with the same countries and frequently with the same individuals, what the United States does or does not do in regard to sharing the international responsibility for assisting the developing nations will inevitably have a profound impact on what we are able to accomplish in the remaining fields. The stakes in monetary reform, trade and investment are simply too high for us to do less than is required in the area of development.

I fully recognize that new questions—good questions—have arisen about the role the United States can and should play in foreign assistance. There is a feeling that the United States has been called on to do too much over too long a time, and a feeling that too many domestic needs are still unmet to permit providing our resources overseas. Pressures on our balance of payments and on the dollar have tended to reinforce these feelings.

In the end, these are questions of appropriate priorities. They have led to a searching review within the Congress and the administration. I firmly believe that the legislation before you have been carefully analyzed in terms of consistency with our priorities—domestic and foreign—and represents the right policy for the United States in the period ahead. Let me explain the reasons for this conclusion.

The world economy and the U.S. role within it have undergone rapid change. We are no longer so large relative to the rest of the world. Others should pick up more of the burden in such fields as development assistance. Under the proposals before you they are doing so. Indeed, healthy international development lending institutions—and they cannot be healthy without our participation—are one of the best assurances we can have that others will bear an equitable portion of the common responsibility.

Internationally, after a long period of decline and erosion, our competitive position is now benefiting from major changes in exchange rates. Recent balance of payments figures are encouraging, and prospects are good for our external sector to become a strong plus factor generating more jobs and higher incomes in the domestic economy. Looking ahead—and the money being requested today will not be spent for some years—I believe we can handle the programs I am describing today without damage to the dollar, and indeed with the expectation that they will help to generate international business for us.

Our domestic economy has now been relieved of the burden of a long and costly war. Our fiscal situation is moving to better balance. We can carry out these programs with fiscal responsibility. Our support for the multilateral lending institutions, of course, involves a significant amount of money. But as a small fraction of our resources and our budget—actually a smaller fraction than that of most other developed countries—these programs have been fitted into our overall financial and budget planning in a manner that reflects, I believe, an appropriate balance among competing demands.

All of these circumstances help provide a solid foundation for the commitments we request, which in turn are an essential element in our overall foreign economic policy.

Our relations with developing countries are important to the United States economically and politically. The developing countries provided a $14.6 billion market in 1972 for U.S. goods and services. In fact, as a group, they purchase more from us than we do from them. Perhaps more important, they provide us with one-third of our raw materials imports, and that proportion will only grow in the future. All nations are facing today the problems of inflation. More raw materials and products from the developing countries will help abate that problem. It makes good sense for us to utilize proven vehicles, such as the international development lending institutions, for aiding the growth of nations that are at the same time such important sources and markets for us. Our benefits need not be at the expense of others' losses, for with growth all parties can be better off.

Beyond these economic benefits to the United States, the multilateral lending institutions—as President Nixon noted in his message—also play an important role in American foreign policy. There is a wide chasm between the wealth of the United States and other industrialized countries on the one hand, and the extremes of poverty in developing countries on the other. The developing countries must be given hope in their efforts to reduce the disparity and must be encouraged to seek to do so as part of outward-looking, more market-oriented economies where a premium is placed on efficient use of funds.

These international development banks are well equipped to offer this hope and this encouragement. Conversely, a renewed U.S. commitment to multilateral development can give needed assurance to the world that the United States is not turning inward, and that it is prepared to help tangibly—that we will maintain a leading position in global affairs. Secretary Kissinger agrees fully with the importance of these institutions in the spectrum of our foreign relations, and a representative from the Department of State will appear before your committee at a later date to elaborate on this concern.

This, then, is the general background for today's specific proposals. In presenting them to you, I want to say we have taken special care to emphasize to other donors that we could not make—and would not desire to make—international commitments to these institutions without congressional participation and assent. You will find explicit language in the respective reports of the Directors of IDA and the ADB that affirms the principle that no commitments arise until legislative approval is obtained.

At the same time, I also must underscore the fact that these proposals have been arrived at only after intensive discussions with other countries, in which we have elaborated and emphasized the concerns of Congress against the background of our earlier consultations.

In the end, the interests of the various donor countries have been carefully balanced. What they do is inevitably dependent on what we do. A unilateral effort to reduce the amounts or institute other major changes would inevitably pose difficult problems in negotiating a satisfactory arrangement, and greatly impede the continuity of the institutions' operations. If the United States should reject the proposal, the practical effect would, in my judgment, be the rapid unraveling of the effort we have made over the years to build these institutions, which have become so central to the international development assistance effort.

For all these reasons, the proposals have the strongest support of the President, evidenced by his personal message to the Congress. As I promised you at Nairobi, the administration will press as hard as possible for their approval.

Let me turn now to the proposals themselves.

International Development Association

The International Devélopment Association (IDA) was established in 1960 as the concessional lending arm of the World Bank. It makes long-term loans to countries with a per capita annual income of $375 or less. Twenty-five nations contribute funds for its operations, which are carried on in 70 countries located in all the major regions of the developing world. Contributions are mobilized for 3-year replenishment periods, the latest of which, the third replenishment, runs through June 30, 1974.

Specifically, the IDA proposal before you calls for total contributions from all donors of $4.5 billion over 3 years, which would permit IDA to make credit commitments during the period fiscal years 1975–77. The most salient feature of this fourth replenishment of IDA is the reduction in the U.S. share from 40 percent to 33⅓ percent. This would result in a U.S. contribution to the total replenishment that is lower by $300 million than it would have been had our traditional share been maintained. Based on national income and other measures of financial capacity, a one-third share for the United States is entirely reasonable.

It is contemplated that countries will generally make payments under this replenishment in three equal payments beginning in fiscal 1975. However, options would be provided, with the practical effect of permitting us to commence our payments in fiscal 1976 (after our final payment in fiscal 1975 under the current third replenishment) and to divide our payments over 4 years instead of 3. Our present intention is to make use of these options. However, we would welcome the guidance of the Congress about this question, and we have drafted the proposed legislation so as to provide maximum flexibility.

On an annual basis, our contribution under the 4-year payment option would be $375 million per year, compared to our present annual contribution level of $386 million. (Our original commitment to contribute annually $320 million has been increased by $66 million as a result of maintenance of value obligations resulting from devaluation.) Payments would be made in non-interest-bearing letters of credit, to be drawn down over an extended period of years. Accordingly, we anticipate virtually no budgetary impact in the early years of our contribution, and the ultimate impact will be spread out over a number of years.

IDA's present resources will be fully committed by June 30, 1974. Its lending operations—which heavily emphasize social and economic improvement for urban poor, for small businessmen and small farmers—would terminate at that time. Consequently, time is an important factor. I therefore urge early committee action on this item, which is the centerpiece of international development efforts for the world's poorest countries.

Asian Development Bank

The Asian Development Bank (ADB), established in 1966, is a regional development bank modeled on the World Bank-IDA group. Its membership includes the developing nations of Asia, together with the developed countries of Europe, Asia, and North America. Like the World Bank, it makes hard loans on conventional terms from its Ordinary Capital window. Like IDA, it makes concessional loans from its Special Funds. It has developed in a few short years into a respected borrower in international financial markets, and an important provider of financial and technical assistance to the developing countries of the Asian region.

There are two Asian Development Bank proposals before you today. The first relates to the Bank's concessional lending operations through a new Asian Development Fund to which the United States would make available $150 million. However, recent international negotiations made clear that other nations will agree that $100 million of funds already authorized by the U.S. Congress and now awaiting appropriation can be used for this purpose. Consequently, our request for new authority for this purpose is limited to $50 million.

Although the United States was a founding member of the Asian Bank, we have never contributed to its concessional lending resources. Over a period of 3 years other nations have contributed about $250 million. Now, those funds are largely committed. Thus, the Asian Development Bank will run out of funds for concessional lending by the turn of the year.

The proposed Asian Development Fund will avoid a cessation of concessional lending operations and sustain lending over a planned 3-year period.

The funding by all donors is proposed to amount to approximately $525 million. The suggested U.S. share of the new fund of $150 million would thus amount to 29 percent. However, as I indicated earlier, other donors in a genuine spirit of cooperation and willingness to look forward in a constructive way, have indicated that the United States may credit toward its contribution to the new fund $100 million that had been authorized for Asian Bank concessional lending in 1972 and that is now pending appropriation. The new replenishment of $525 million, therefore, would require only $50 million additional funds from the United States—less than 10 percent of the total. It is that $50 million for which authorization is now being requested.

This proposal seems to me to meet and even exceed any reasonable test of burden-sharing. Other countries have already contributed over $250 million for concessional lending by the Asian Bank. With $100 million already authorized and the additional $50 million now requested, on a cumulative basis, our overall share of Asian Bank Special Funds would be only about 20 percent.

Moreover, our $100 million portion is, by agreement with the other donors, tied to procurement of U.S. goods and services, ensuring direct benefits to U.S. suppliers and facilitating U.S. entry into key markets in Asia.

The second proposal relates to U.S. participation in a replenishment of the Bank's Ordinary Capital, for which I transmitted draft legislation to Congress on July 10 of this year. This would require a new authorization of $362 million over 3 years, largely in the form of guarantee capital without budget impact.

The proposal is important from two standpoints. First, it will enable the United States to retain a voting position and influence in the Bank commensurate with our financial and policy interest in the Bank and in the region. Second, the resources it will provide the Bank in support of its lending operations—in this case, nonconcessional or "hard" loans—can and will be effectively used in areas of priority need.

I would emphasize that other member countries have already provided their share of a planned proportionate capital increase for the Bank. We have delayed our request, because we believed other contributions—including the $100 million in concessional funds for the Asian Bank—deserved immediate priority. As a consequence, the voting strength of our shares was reduced from 17 percent to 8 percent. This is inadequate if we wish to have an ongoing, effective voice in the Bank.

Our relative position can be restored at a small budgetary cost. Of three annual installments of approximately $121 million each, only $9.7 million a year would be cash. A further $14.5 million would be in letters of credit to be drawn down over time. The bulk, some $97 million a year, would be callable or guarantee capital. Contributions of callable capital are not expected to have any cash or budgetary impact, but they do provide a backstop guarantee for the Bank's borrowing in private capital markets.

Although much smaller than IDA, the ADB is an increasingly important institution on the Asian political-economic scene. While it is a vehicle for expressing continued U.S. interest and support for the region, the main responsibilities are properly carried by the Asians themselves. Japan has been by far the largest contributor, particularly to the soft funds. But neither the Japanese themselves, nor other Asians, want Japan to dominate the institution. Despite Japan's heavy contributions, I believe that is not the case today. But we and other members do want to maintain an appropriate balance. Today's legislative proposals are essential to maintaining an appropriate U.S. presence.

Relation to appropriations

The authorization requests for these programs are a critical step in a complex process. Equally important will be the followthrough in terms of timely and adequate appropriations. The President has urged quick action on pending appropriations requests, noting that we are behind schedule in providing our contributions to all of the institutions. I would hope that, within the structure of the Congress, appropriate and innovative techniques might be worked out that would facilitate the handling of the multiyear funding programs that are essential to the orderly conduct of the business of the international development lending institutions. A solution to this problem must be, after the authorizations themselves, the highest item on our legislative agenda relating to the international banks.

Working with the Congress, I believe we have in the past year increased the flow of information to, and interchange of ideas with, the Congress at both Member and staff levels. We benefited greatly by contacts with you and with other Members of the Congress in preparing for negotiations with other countries. We have made plain to others that we view U.S. participation in these institutions as a partnership of the Congress and the administration, and we could not commit the United States before the Congress has had an opportunity to consider and act on the proposals. The policies will continue. My hope is that the Congress itself will not only support this legislation, but will provide assurances, at the earliest feasible date, that necessary appropriations will be forthcoming.

The most appropriate note for me to close on is President Nixon's summation in his October 31 message:

> All nations which enjoy advanced stages of industrial development have a grave responsibility to assist those countries whose major development lies ahead. By providing support for international economic assistance on an equitable basis, we are helping others to help themselves and at the same time building effective institutions for international cooperation in the critical years ahead. I urge the Congress to act promptly on these proposals.

Appropriations requirements for IDA and ADB replenishment

[In millions of dollars]

	Fiscal year 1975	1976	1977	1978	1979
IDA IV		375	375	375	375
ADB:					
Special Funds	[1] 50				
Ordinary Capital [2]	121	121			

[1] May be deferred to fiscal 1976 depending on result of pending $100 million fiscal 1974 appropriation request.
[2] $121 million for first installment is included in pending fiscal 1974 request.

Exhibit 89.—Statement by Secretary Shultz, March 21, 1974, before the Senate Foreign Relations Committee, on authorizing legislation for U.S. participation in the fourth replenishment of the International Development Association (S. 2665)

Since I appeared last November in support of legislation to authorize U.S. participation in the fourth replenishment of the International Development Association (IDA), vast changes have been at work in the world economy.

None of us is wise enough to foresee all the implications of these developments, for ourselves and for others. Certainly, important new problems are obvious. But as I look at these problems, one conclusion seems to me evident. The importance and wisdom of moving ahead with the IDA fourth replenishment has grown since I last testified.

It is for this reason that I welcome these additional hearings. I hope we can, in these 2 days, lay the basis for a clearer recognition of the importance of today's legislation to the United States, and thereby make it possible to put IDA replenishment firmly back on the legislative track.

While the emphasis of today's hearings is on the IDA replenishment, there is also important legislation before the committee on replenishment of the resources of the Asian Development Bank. Our request for Asian Bank Ordinary Capital funds is designed to restore an adequate voting position in the Bank for the United States. The great bulk of these funds will have no budgetary impact. The amount we have requested for concessional funds for the Asian Bank would complete a program under which other donors would provide four-fifths of total contributions. I hope these Asian Bank bills will also receive early and favorable action.

As presented to you in November 1973, the IDA replenishment proposal made excellent sense: It was negotiated on a financial basis highly favorable to the

United States compared with past replenishment; it was timely in the face of the exhaustion of IDA's present funds by mid-1974; and it signified to an anxious world that the United States was not drawing back from a position of responsibility in the world community.

As S. 2665 stands before you today, in a world concerned not only with the problem of oil but with literally dozens of questions of international economic interaction as well, replenishment of IDA makes still more sense. If there is to be effective, outward-looking economic leadership in the world today, the United States must play a central role. It is in our interest to do so, for we benefit enormously from a cooperative world—in trade, energy, monetary relations, food, and on the problem of access to commodities in short supply. Leadership and cooperation is a two-way street, involving responsibilities as well as benefits. An important part of these responsibilities lies in the field of promoting development. We do not have the option of, in a sense, withdrawing from cooperation in one area of crucial significance for most countries, and expect responsive policies in other areas of direct interest to us. Finally, IDA is not designed to, and cannot be used to, pay the increased oil bill of the poorest countries, but we can and must avoid further undermining of their precarious position by cutting off this important source of assistance.

Incidentally, I was encouraged to see that the widespread spontaneous editorial comment in the Nation's newspapers on the House of Representatives adverse vote on IDA in January emphasized essentially these same points. I know you in the Congress and we in the administration are sometimes inclined to see foreign aid in general, and the multilateral institutions in particular, as a worthy cause without a constituency. But in this case, the essence of the matter seems to be widely understood.

I will not review today all of the details of the proposed replenishment arrangement, since these are already in the committee's published hearing record. I am sure you are aware that in the course of negotiating a package for consideration by the Congress, we were able to obtain a reduction in the U.S. share of the replenishment from 40 percent to 33⅓ percent. What was, from the standpoint of the other 24 contributors, an arguably fair share for the United States when it stood at 40 percent—about our percentage of those countries' GNP—is now from our standpoint indisputably fair.

I am less certain that we made clear in our previous presentation that, while asking for a $1,500 million authorization, the actual annual appropriations required for the United States to the fourth replenishment would be less than the annual equivalent for the present third replenishment. The new Federal budget for fiscal 1975 accurately shows our current contribution to IDA as $386 million, a figure which takes into account the changes in the official value of the dollar. In the fourth replenishment, the U.S. contribution of $1.5 billion may be made over 4 years beginning in fiscal 1976 rather than 3, so the required annual appropriation can be reduced to $375 million. This provision was negotiated by the United States in clear recognition of the congressional sentiment that our nominal annual contributions should not increase at the present time. This provision is possible because, while IDA commitment authority has traditionally been provided in 3-year tranches, actual cash needs lag behind commitments, permitting some spreading of the expenditure outlays.

Unlike previous IDA replenishments, the fourth replenishment contribution will not be affected by changes in the value of the dollar, since maintenance of value provisions were eliminated for all in this round of contributions, again in recognition of the strong sentiment in the Congress to avoid additional payments if the value of the dollar diminished in the future.

That is all I wish to say now about the technical features of our participation in the IDA fourth replenishment. It is, of course, important that we have negotiated an arrangement that adequately reflects our needs and circumstances in its technical aspects, and that IDA's operations directly benefit short- and long-term economic interests of the United States. But my emphasis today is on the overriding need to permit the IDA replenishment to proceed, in the light of the totality of our international relations, political and economic.

I would like to turn now to those specific concerns that arose importantly in the House debate on January 23, when a bill similar to S. 2665 was voted down. I frankly believe those concerns are not warranted, and I want to explain why before this committee takes action.

The first issue is all those concerns and questions associated with the energy crisis: Doesn't the increased energy bill for less developed countries make IDA irrelevant? Won't these funds just end up in OPEC countries' coffers? Why shouldn't these oil producers now take over the aid burden?

The House voted in the heat of concern over the energy crisis. Recognizing the extreme problems facing many developing countries, Members naturally raised questions concerning the responsibilities of the newly wealthy oil-exporting countries toward helping the countries in difficulty. Legislators returning from districts deeply frustrated with the oil situation in the United States questioned what help IDA could be in dealing with the consequences of an oil shortage, or felt that IDA money might simply pass through the borrowers' hands into oil producers' pockets.

These concerns are real—but the answer does not lie in abandoning IDA. Developing countries face two separate problems requiring two solutions: They need a continuation of their long-range development through sound and productive projects financed by multilateral and bilateral assistance—so they can help themselves. They also need new concessional funding (or lower oil prices) to cope with the short-range balance of payments impact of the oil price increases. Here I should note the long-term development problem facing most developing nations not only has been compounded by high energy prices but by an enormous increase in fertilizer and food costs, so that for many, the issue is survival, not surfeit.

IDA can and does serve only the first of these needs. IDA lends for specific projects; its funds go, as they always have, to pay the suppliers of the pumps, tractors, cement, industrial machinery, laboratory equipment, and engineering services needed to build and carry out sound and urgent development projects. A very significant portion of our contribution to IDA will return to the U.S. economy in demand for exports. Indeed, increasing poor countries' power-generating capacity, particularly hydroelectric, has been a large part of past activity—alleviating the world scramble for fossil fuel. I should also add that in the narrowest sense IDA serves U.S. economic interests by providing for greater access to raw materials, for world markets by building power facilities, roads, ports, and by helping directly on some mineral projects.

To meet the second need, it is indeed essential to call on the oil exporters themselves. Some of these countries can use all their new revenue in their own development; others are in a position to provide resources. We are urging them to do so, but in doing so, we also need a sense of perspective. Only two or three relatively tiny oil states will have per capita wealth or income approaching or exceeding our own. If the United States out of its wealth cannot continue its historic level of support for IDA and similar financial institutions, on what basis can we ask the rest of the world and the oil producers to pick up their fair share of the new development finance burden?

We are already seeing the beginnings of recognition by the oil-producing countries that their new affluence carries with it important responsibilities. The Government of Iran has offered certain sums for lending on favorable terms to developing countries, over and above a new program of the purchase of World Bank bonds. Venezuela, too, in addition to bond purchases, has given indication of making resources available through the Inter-American Bank. An Arab Fund for African Development is under discussion in African regional organizations, and additional resources are apparently to be made available to Islamic nations for long-term development.

Many problems remain in organizing this effort, but the indications are hopeful. But to seek oil money for development as a substitute for the efforts of the industrialized countries would not be productive. Implementation of the IDA fourth replenishment as negotiated at Nairobi last year will, therefore, be an important factor in achieving success in getting the oil countries to assume their part of the job.

The second major issue I would like to highlight is the suggestion in the House that IDA's funds only help the rich in the developing countries and do not really help the poor. This contention has been made in the past, but the record simply does not bear this contention out. What each country needs in the way of development depends on its own circumstances—it includes infrastructure loans that touch the individual only indirectly, as well as water supply and education loans that touch his daily life directly. If the projects are sound, they all benefit the poor. It does little good to concentrate wholly on, say, rural water systems if roads from village to market make it impossible to earn a decent living. In coming years, IDA lending programs will be even more heavily concentrated on the poorest areas, with emphasis on rural areas where much of the population lives.

A third area of major concern in the House involved budgetary and balance of payments concerns—particularly those questioning the wisdom and ability of the United States to incur additional foreign commitments at a time of considerable economic uncertainty and increased demands at home.

In answer, let me first reiterate that we are not talking about a major new economic program—the levels we are proposing will mean no more money in the budget for the next 4 years than there has been for the last 3. At the same time our ability to pay for these programs has grown. Our total product last year alone increased $102 billion, and as a percent of our budget and national income the amounts will represent a smaller fraction than before. Our trade balance has improved significantly, as has our overall balance of payments position. For us, the energy crisis will at worst mean that our growth curve will be flat, but for developing countries hard hit by the energy crisis, IDA can, as I have said, make the difference between survival and starvation. The annual cost to us is $1.80 a head—less than an hour's proposed minimum wage. The majority of the recipient countries of these funds have, per capita, less than $100 annual income per year.

Questions were raised in the House about the low interest rates and long repayment period on IDA loans—far more generous than any loans available in the United States. This is true and the United States strongly shares the conviction that developing nations should be shifted to market rate loans as quickly as possible.

But it makes little sense to make loans to countries on terms we know they cannot repay. Great care is taken to assure that the projects that are financed are viable financially and economically, and that they do have a high rate of return to the nation. But that—particularly on infrastructure—is not the same as saying the country has the capacity to generate foreign exchange in order to repay external debt without a long payback period and favorable interest terms. We are dealing with countries living at or very close to the subsistence level that simply cannot quickly convert improvements in domestic productivity into lower imports or higher exports.

On some projects, the government relends the money—for example, to local farmers at higher local interest rates. The difference between IDA lending rates and the local charges is used to help build government credit institutions.

Finally, the House raised the issue: Why help these countries, since many of them do not support us at the United Nations or other political forums? I believe we all understand, after some years of misconception, that you can't buy friendship or influence. The relevant question, it seems to me, is what would happen in the absence of these loans and these programs. The answer is simple and basic: a very different type of world than I believe we want our children to grow up in. While we do not buy friends, we are building stronger economies in primarily the Western model—where cooperation is promoted, although not always achieved. Poverty breeds frustration and anger. In an increasingly interdependent world, it would be costly economically and politically to ignore these issues.

Mr. Chairman, the rest of the world's industrialized countries are prepared to move ahead in support of the fourth replenishment of IDA. I do not believe I can overemphasize the seriousness of our failure to do likewise.

Fourteen years ago when IDA was instituted as a major U.S. initiative, it had two major aims:

> *First*, to provide a more adequate level of concessional loans to the poorest nations to aid them in helping themselves.
>
> *Second*, to shift a greater share of the burden for financing development to other industrial nations whose growing economic strength made such a shift feasible and desirable.

In both of these objectives, IDA can claim success. Countries like Korea and Colombia no longer require these concessional funds and can pay market rate loans. The U.S. share of 33 percent means that for every $1 we put up the developing nations receive $3—as others put up twice our total. Our annual IDA contributions represent only three one-hundredths of 1 percent of our total product, and only one-tenth of 1 percent of our budget, and an investment in the future of a world increasingly dependent on the raw materials of the nonindustrialized nations.

Important U.S. economic interests—including those of providing markets overseas and secure sources of supply for raw materials we need—are inextricably bound up with development of the poor countries. Through IDA, other industrialized countries are making an increased commitment to financing that process of development. And for the developing countries themselves, IDA is an indispensable element in determining whether or not the future holds promise or threatens disaster. In sum, helping IDA makes sense for us, and for the world.

Exhibit 90.—Statement by Secretary Shultz as Governor for the United States, April 2, 1974, at the 15th annual meeting of the Board of Governors of the Inter-American Development Bank, Santiago, Chile

My thanks, Mr. Chairman, to the Chilean Government for the warm welcome which has been extended to me and the entire U.S. delegation. For many years—going back to my days as a professor at the University of Chicago, where we were privileged to see a number of able Chilean students—I have heard much of this country, its people, its rich culture, and its high aspirations. As we meet here today, we are all conscious of the large challenges before you, and wish you Godspeed in your vigorous efforts to meet them.

These are times when economic and political relationships are changing rapidly and on a global scale. Our hemisphere is not isolated from the tides of change. Old assumptions have been called into question, and old ways of doing things no longer seem adequate. None of us is wise enough to know all the implications of the changes we see. But we all recognize the need to move ahead—to fashion new principles where necessary—to work together cooperatively on the problems at hand. We, Finance Ministers of the Americas, have in this common effort a special responsibility to participate, for many of our problems are economic in nature. Fortunately, we have a foundation upon which to build.

Here in Santiago, and in other forums, we can sit down and carry forward frank dialogue in a spirit of friendship and good will to assess the needs and our capabilities. Through this dialogue, it will be possible to reach mutually advantageous decisions.

In the Inter-American Development Bank, we have an institution in being that has been a source of increasing strength and a focus for cooperation for 14 years. It has at its head a man of large vision—Antonio Ortiz-Mena.

A new record was achieved in 1973 in the volume of Bank lending commitments, and I am even more impressed by the evidence that its procedures for the selection and development of sound projects have been further strengthened. The problems of the poorest nations, and of the poorest sectors in each country, are properly receiving more concentrated attention. The work of the group of controllers and the increased attention given internal evaluation add to our confidence for the future.

Indeed, after 14 years, I believe it is fair to say that the Bank is more than ever ready to assume a broader role in promoting hemispheric cooperation.

Today, when development is threatened by shortages of energy, food, and fertilizer, when monetary relationships are in a state of flux, when new trade and investment issues are thrust upon us, I want to range widely in my remarks. I shall address areas not traditionally identified with the work of the Bank but which are inevitably of great importance to this work. I do so in full consciousness of the studies and progress the Bank has made in assessing and in helping to meet the need of the Americas.

First, I am aware that for many years, numerous Latin American friends have thought and stated openly that the United States—preoccupied with problems elsewhere—paid inadequate attention to the problems of the Americas. We do believe that many of our efforts in other parts of the world spared the Americas serious problems. Nevertheless, last year, at Jamaica, I attempted to make a simple point—we do care.

I believe that fundamental point was the message that Secretary Kissinger brought to the meeting of Foreign Ministers of our nations convened in Mexico City just over a month ago. Out of their discussions, ranging widely over political and economic matters, a new understanding, a new spirit have begun to emerge.

We can sense the challenge. Approached with realism, with candor, and with a new solidarity we can meet that challenge. That is the aim of the United States.

As Finance Ministers, dealing every day with hard facts and pressing problems crying out for decision and resolution, we know that hortatory statements and vague principles are not enough.

We must be able to do tangible things. We must realistically appraise our capacity to act—to deliver what we promise.

Not least, we in the executive branch of the United States can never forget that we cannot act alone, without the broad support of the public expressed through its representatives in the Congress. For that reason, I am particularly pleased that we have with us a distinguished delegation from the Congress whose interest in the hemisphere is equal to mine. Their voices raised in support of the IDB, as they become convinced of its real significance, will have a definite and favorable effect in our Congress.

Permit me to review briefly some of the areas in which I believe we can work more effectively toward our common objectives.

First, we have supported a strong voice for Latin America in the ongoing process of monetary reform and in the management of the monetary system. In the proposed new Council of the IMF, I believe we have found a promising approach toward strengthening monetary cooperation and the role of the Fund. The success of the Council will, in the end, rest on the ability of responsible national officials to work together in confidence and good will. Let us resolve that our dialogue in the Americas—a dialogue responsive to the needs of nations in all stages of development—will contribute effectively to that larger understanding.

Second, in trade we are also approaching new negotiations on a world scale. Every country represented here can benefit from reduced barriers to trade, and there are large strands of common interest among us to be pursued in these negotiations. In our preparatory work, we want to be alert to your problems, and we also want you to be aware of ours.

More specifically, I am hopeful that our proposed domestic legislation, which contains a provision for preferential entry into the U.S. market of products from developing countries, will be passed in this session of Congress. Before implementing that provision, we would welcome further analysis of your interest and needs.

For these reasons, we need to reinforce our consultative processes, and I am glad to be able to say that our chief trade negotiator, Ambassador Eberle, plans on visiting Latin America for that purpose later this month.

Third, as we work toward more open markets, we must be conscious of a new threat to free trade from action to restrict supplies. We favor free trade, but it must be on a fair basis. Frankly, we are disturbed by some tendencies we see at work to restrict the supplies made available to the world markets—either through exporter collusion aimed directly at influencing world prices or through export taxes and other restrictions aimed at insulating domestic markets from the general upward trend of primary-product prices. Indeed, the political processes in the United States, at a time of sharply rising prices for food, are not free of pressures favoring such insulation.

But I believe we are justified in pointing with pride to the fact that these pressures have been resisted—and we mean to keep our export markets open. But for the long run this commitment can be economically and politically defensible only in the context of reciprocal responsibilities. Cool and dispassionate international examination of this problem seems to me urgent. Ultimately, the problem and its solution are global in nature. But we have much to learn from each other in our own hemisphere as we approach even larger forums in the effort to develop acceptable codes of behavior.

The list of the issues that face us is long and complex. The problems of energy and inflation cut across all areas of economic activity and particularly affect development. For years, the problem of inflation was one endemic to developing nations and we often preached the virtues of restraint. Yet today the problem has become worldwide, crying out for a common effort in the interests of both our national and international prosperity. Since many of your economies are affected directly by the price level in the United States, let me state simply that inflation is a matter of major concern to us and we will not be timid in attacking it. The worldwide supply shortages in basic commodities have, of course, made its solution and management more difficult—a fact which only underlines the urgency for all nations to follow responsible domestic and international economic policies. For our own part, the efforts we have made to expand food production seem to be paying off, with results now apparent in markets for raw agricultural products.

Energy poses the most serious current challenge to the world and the region. The abruptness and the magnitude of recent price increases have created problems that are virtually unmanageable for many of the poorest nations. Direct and urgent measures are needed to alleviate their situation. In this context, it is essential that traditional levels of development project assistance be continued by industrialized nations. It is equally essential that oil producers with excess revenues join in providing aid—particularly concessional aid—as well as conventional resources to the poorest. We welcome the initial positive response of the oil producers of this hemisphere—and in particular Venezuela—who have announced their intentions to provide major help to sister nations.

President Ortiz-Mena is to be congratulated on his recent initiative in calling together all the regional development banks in order to cooperate and coordinate the efforts to obtain new resources from oil producers outside the hemisphere.

In our view, the operations of the IDB must be examined and reoriented to take into account the changed situation emerging from energy prices.

First, it will be more important than ever to husband the scarce concessionary funds of the Bank for the poorest.

Second, the increased economic value of energy products carries as a direct and logical implication that there should be a greater emphasis on energy. And this implication applies not only to project financing by the Bank but also to the allocation of local investment resources by the member countries. But it does not exempt the initiatives elicited by these new challenges to development from meeting the rigorous and professional standards which this Bank is trying to implement in its own work and to foster at the national level. Much hard professional work therefore lies ahead in identifying the types of investment whose attractiveness has been most enhanced by our new assessment of economic realities in the energy sphere, and in finding and going through the arduous work of project preparation on the specific projects of each type to be implemented.

Third, the increased cost of energy has prompted the United States, which now produces 85 percent of its energy needs and 70 percent of its petroleum needs, to undertake massive and sophisticated research on the development of all forms of energy. In view of the vast reserves of coal, oil shale, and other resources available and, most importantly, of the creative talent now attracted to this effort from the relevant fields of science, engineering, and management, breakthroughs toward more abundant energy at lower cost are probable. If so, these methods and their potential for lower costs will be made available, perhaps through the IDB, to the poorer countries especially.

What has become abundantly clear in the past 2 years is that all of our major economic problems—money, trade, investment, development, and internal growth and stability—are inextricably linked.

While we have no shortage of forums to address one or another of these problems, they seldom are approached in full context. In years past, for instance, these meetings have properly concentrated on the specific needs of the IDB. In large part, they should continue to do so. But we can also use these meetings to look at the development problem in its broadest perspective.

I know from personal experience that the informal "shirt sleeve" session we had at last year's annual meeting made a large contribution to my own thinking. The session yesterday was equally worthwhile from my point of view, and I hope such meetings will continue to be held.

If my perception of the value of these informal consultations is shared by others, the proposal to make the mandate of the Committee of Governors ongoing, suggested yesterday by President Ortiz-Mena, makes a great deal of sense. And the United States would also welcome a commitment of all Governors to sit down at least twice a year in a frank and informal dialogue, once at the time of this meeting and once when we attend the annual IMF–IBRD meetings. Between these two meetings, the present Committee of Governors might act as a consultative and preparatory forum to enhance further the value of the discussion.

The agenda should, in my judgment, be flexible and organized around our common concerns. It would take as one point of departure issues affecting the Bank itself, but should range further afield into other economic issues of common concern.

Perhaps the clearest challenge of the moment is to assure a continuing flow of financial resources to the poorer nations of the region. This is an area in which we have some direct quantitative measure of results. Aggregate financial flows to Latin America have grown appreciably in recent years, reaching a total in 1972 of almost $5 billion, 40 percent larger than 3 years ago.

But such an aggregate figure hides as much as it clarifies about the nature of the problem and its complexities. There is evidence that the mix between public and private flows has changed substantially. For example, recourse by Latin American countries to international financial markets has, according to World Bank figures, expanded from $500 million of gross borrowings in 1971 to $3.1 billion in 1973.

This seems to me healthy and encouraging, for in part it reflects the strong credit positions and rapid growth of many nations which are now able to go directly to world capital markets. Of course, the new pressures resulting from the oil situation raise questions as to the sustainability of these borrowing levels.

At the same time, we need to recognize that for many years to come, official assistance will be required. Those funds are scarce. We must utilize them with maximum effectiveness at the point of greatest need. Here lies the central role of the Bank itself. And, in performing this role, I believe the Bank would benefit from study of the ability of each of its members to acquire capital, from whatever source, as a basis for the Bank itself to see where its help is most needed.

You know of the difficulty we have had in funding the Bank and particularly the Fund for Special Operations in accord with the schedule agreed some years ago. These problems grow out of the serious questions asked by our public and our legislature concerning the value and levels of foreign assistance—questions that led the House of Representatives in January of this year to vote against our proposal to replenish the International Development Association. We believe those questions can be answered. We are exerting every effort to carry our message to the Congress and to the people of our country. The IDA bill is now under review in the Senate and we are hopeful for early passage in that body. We also believe this year's and future appropriations will be forthcoming for the FSO in amounts adequate to maintain the momentum of that program.

But we must not ignore the basic fact that support for these programs depends upon a continuing record of performance in the IDB and other assistance institutions—and our ability to demonstrate that performance in down-to-earth, understandable terms. The congressional delegation here today is a sign of our interest. Their participation in this meeting and the opportunity to visit projects is an integral part of governmental effort—by the executive and the Congress alike—to assure that our participation in the Bank is effective and that the benefits are understood.

Now the time is coming when we need to look ahead to the provision of new funds for calendar 1976 and beyond. I fully agree that the planning and presentation of specific recommendations for Governors by the annual meeting next year should be our goal. We are preparing for discussions of this matter during the summer, assessing realistically both the needs and the capabilities.

Unfortunately, the target we set for the effort to bring in new members has not yet been met. In our future financial planning, I believe we should not count on—but should keep open—the possibility of bringing countries from other areas more directly into the work of the Bank. The target contributions are fair and reasonable to the Bank and in proportion to the past contributions of members. I believe the target should not be reduced, and my conviction is reinforced by the changes in purchasing power that have taken place since the target was formulated.

So far as private sources of funds are concerned, I am particularly pleased that the tendency for many developed countries to restrain flows of capital has, at least in part, been reversed in recent months. Today, I know of no official impediments to the flow of capital from the United States, or indeed on the possibility of countries in good credit standing to tap international money markets. And there never have been significant restrictions on the movement of foreign funds into the United States in the form of either debt or equity capital. Just as we are striving to reform the monetary and trading order, we should also be working to ensure that capital in its many forms can flow freely among countries to the benefit of all. If there are remaining problems in this area, let us appraise them together and assess what needs to be done.

Now, obviously, the flow of private capital is directly related to the treatment that investment receives in the region as a whole, and in particular countries, as well as to the availability of supply. Last year at this meeting we spoke frankly and openly of the difficulties raised by the important investment disputes then outstanding and the need to resolve them, not in a doctrinal way, but pragmatically. I must say the results of this approach have exceeded my expectations. Today, there are no major investment disputes which have not been settled or are not on a satisfactory road to settlement. The benefits seem to me demonstrable.

At the same time, we should take what steps we can to anticipate future difficulties, and avoid the threat that recurring disputes could affect not only the flow of capital and impede the transfer of technology carried by such investment, but also poison our overall relations. Sensitive to this need, Secretary Kissinger in Mexico suggested that we might consider the establishment of a regional fact-finding body to help the conciliation process. Perhaps there are alternative ways to deal with these issues in a way consistent with the sovereignty and policies of each. If so, let us place them on the table for practical discussion in an appropriate body.

There are many other difficult economic problems which we will be facing now and in the future. But in closing let me say I believe our greatest challenge lies in promoting the integral development of this hemisphere—to achieve the full potential of the new world. Of late there has been a disturbing trend for an increasing number of countries to believe that their own national interest can best be served by going their own separate ways. History teaches us a different lesson, and I am convinced that it makes sense for us and sense for other nations to cooperate on a regional basis and on a global basis. Let us set about this task.

This is my last annual meeting as U.S. Governor of the IDB. I will shortly be returning to private life, but I wish to assure you of the sustained effort of my Government and my successor to the goals I have spoken of today.

In saying goodby, I would like to pay special homage to President Ortiz-Mena for his outstanding leadership in a time of great challenge for this Bank; to my fellow Governors for their spirit of friendship and professionalism; and to the men and women who make up this great institution, and who have worked the hardest at moving forward in practical ways the goals of all our people—a prosperous and harmonious hemisphere.

Exhibit 91.—Press release, April 19, 1974, announcing U.S. contribution of $50 million to the Special Funds of the Asian Development Bank

Treasury Secretary George P. Shultz today signed an agreement providing for a $50 million contribution by the United States to the Special Funds of the Asian Development Bank. The Secretary is the U.S. Governor of the ADB. The event took place at the Bank's headquarters in Manila, where the Secretary stopped over en route to the ADB annual meeting in Kuala Lumpur, Malaysia.

The Special Funds were established in 1967 to provide concessional loans for high-priority development projects in the least developed member countries.

The $50 million provided today was the first U.S. contribution to the ADB Special Funds and was appropriated in December 1973, under a 1972 authorization for a $100 million contribution. The administration is seeking the remaining $50 million appropriation in fiscal year 1975, as well as a further $50 million authorization for appropriation in fiscal year 1976.

In 1973, the Bank initiated the creation of the Asian Development Fund (ADF), a unified, multilateral fund which will be the primary source of future finance for the Bank's concessional lending operations. It is anticipated that the Asian Development Fund will come into formal operation in 1974. Contributions over the first 3 years of the fund are scheduled to reach $525 million. When the ADF comes into operation, the $50 million U.S. contribution will then be transferred to it (the ADF).

Exhibit 92.—Statement by Secretary Shultz as Governor for the United States, April 25, 1974, at the seventh annual meeting of the Board of Governors of the Asian Development Bank, Kuala Lumpur, Malaysia

I welcome this opportunity to participate in the seventh annual meeting of the Asian Development Bank, and would like to express my appreciation to the Government of Malaysia for serving as host to this meeting. We are thankful for your hospitality and have been greatly impressed by the vitality of this beautiful city. Indeed, during our visit here and on our stops en route in the Philippines, Singapore, and Indonesia, our delegation has had a chance to see firsthand the dynamism of the members of the Asian Bank and how they are meeting the challenge of development directly and successfully. It is an encouraging sight, I can assure you.

These are times when economic and political relationships are changing rapidly and on a global scale. No region of the world is isolated from the changes. Old assumptions have been called into question and old ways of doing things no longer seem adequate. None of us is wise enough to know all the implications of the changes we see. But we all recognize the need to move ahead—to fashion new principles where necessary—to work together cooperatively on the problems at hand. We Finance Ministers have in this common effort a special responsibility to participate, for many of the problems are economic in nature.

Fortunately, we have a solid foundation of cooperation upon which to build. Here in Kuala Lumpur and in other forums, we can sit down and carry forward frank dialogue in a spirit of friendship and good will to assess the needs and our capabilities to meet them. Through dialogue and by working together we can achieve tangible results that are mutually advantageous.

In Asia, the United States has a long history of active participation in furthering the region's goals. Let me state forcefully that today we remain as deeply committed as ever to the peaceful development of the entire Pacific area. And in the Asian Development Bank, we have an institution that has been a source of increasing strength and a focus of cooperation. It will be called upon to play a greater and greater role in the region's future and we intend to support it fully.

This year, Mr. Chairman, I have the happy privilege of reporting to you and my fellow Governors concrete evidence of our commitment. After several years of intensive effort, the United States has now joined in providing concessionary resources to the Bank through a $50 million contribution to the multipurpose Special Fund, which I had the honor to authorize on behalf of my Government just a week ago in a ceremony at the Bank's headquarters in Manila. Furthermore, we are optimistic that congressional approval will be given to make a second contribution of soft funds of $50 million later this year. I should also mention that we are prepared to transfer this initial $50 million and subsequent contributions to the proposed new Asian Development Fund, just as soon as it is set up. We support the new fund's early establishment and believe it will put the future flows of concessionary resources to the Bank on a more formal and firmer basis.

Our ultimate success in obtaining concessionary funds for the Bank in this case resulted from an effective partnership of both the executive and legislative branches of our Government—in visiting the Bank, in inspecting many of its projects, and examining carefully its individual loans and internal operations. We in the executive branch can never forget that we cannot act without the broad support of the U.S. public, expressed through its representatives in the Congress.

For that reason, I am particularly pleased that we have as part of our delegation a distinguished group from both Houses of our Congress. Their voices raised in support of the ADB, as they become convinced of its real significance, will have a definite and favorable impact on the level of our future participation.

Although we have been able to obtain concessionary funds for the Bank, I must state that the general attitude in the United States toward development assistance is a closely questioning one. We expect to be successful but have not yet been so in obtaining approval for a second U.S. contribution to the Bank's Ordinary Capital. In January of this year, the House of Representatives rejected the administration's proposal for a fourth replenishment of the International Development Association. We intend to continue to work very hard in the months ahead on the ADB legislation and on the passage of IDA IV, which also benefits many members of this institution. But we cannot ignore the basic fact that support for these programs depends upon a continuing record of performance by the ADB and by all the assistance institutions—and our ability to demonstrate that performance in down-to-earth, understandable terms.

In reviewing the record of the Asian Development Bank, I believe we can all take great pride. Eight years ago the Bank was only an idea; today it is a leading force in helping the nations of Asia meet the economic and social needs of more than half a billion people in borrowing member countries. Much of the credit must go to President Inoue, who has provided remarkable leadership in his first full year in office.

In 1973, the Bank achieved its first billion dollars in lending, and total project loans will soon reach $1.5 billion. In accomplishing this, an appropriate balance in the lending pattern has been struck, in my judgment, between loans that improve the economy as a whole and those, such as water supply and rural electrification, which touch the poorest people directly and are typically provided on concessionary terms.

Similarly, the Bank has wisely recognized the importance of private enterprise as a driving force in economic development and channeled a substantial portion of its loan on "rations" to the private industrial and agricultural sector. For the future, encouragement of healthy capital markets is an area of great potential promise for bank support of private sector activity.

Before leaving the affairs of the Bank to address some of the other issues we all face, I would like to say a brief word about three matters of special interest to the United States regarding the Bank's operations. As a Governor, I want to emphasize that I am tremendously pleased with the positive response by the Bank to the constructive suggestions made by Governors in the past and with the very efficient manner in which the Bank is presently administered.

First, we all recognize that unusual economic challenges confront the institution, particularly as a result of the energy situation. I will return to this enormous problem in a moment, but let me just urge at this point that the Bank remain as responsive as ever to the need to examine and adapt its operations to the changed conditions.

Second, I would like to commend the Bank's constructive role in providing assistance to the war-torn member nations in Indochina last year and to encourage a continued active role by the Bank there. We are also most hopeful that the efforts of this institution, in cooperation with the World Bank, to organize a multilateral framework for assistance in Indochina will bear fruit this year.

Third, and perhaps the most important outstanding issue in the Bank's internal operation from the point of view of both the executive and congressional branches of my Government, is the issue of postevaluation. I want to commend the officers of the Bank for having taken the very important first step of establishing a separate internal group to evaluate projects after their completion. The quality of the first two evaluation studies has been excellent. Now, Mr. Chairman, we believe the time is ripe to take the second and equally essential step of providing for fully independent evaluations of various aspects of the Bank's operations by making the evaluation group directly responsible to the Board of Directors. In this respect, I am happy to see that the evaluation proposal currently being discussed by the Bank's Board of Directors incorporates those features so important to assuring this type of independence.

Our concern with this matter is not due to any lack of confidence in the Bank or its President. Quite the contrary, this type of independent mechanism can provide independent evidence of the high quality of Bank operations and their beneficial impact on recipient countries, and thereby help maintain over time the confidence of donor and recipient countries alike.

On monetary reform, every nation represented here has a real interest in seeing that satisfactory agreement is reached at the final meeting of the Committee of Twenty in June, both on general principles for the further evolution of the system and on implementation of a series of specific measures for the intermediate future.

In the proposed new Governors' Council of the International Monetary Fund, I believe we have a promising approach toward strengthening monetary cooperation and the role of the Fund. At the June meeting we can also hope for agreement on guidelines for the adjustment system and on a temporary valuation scheme for the SDR, as well as a standstill on trade restrictions. Together with the principles for the longer term, these steps will provide a solid basis for orderly evolution of the system over time. I believe it is up to ministers to make a maximum effort to reach such an agreement, not because agreement is in the special interest, narrowly conceived, of my Nation or any single group of nations, but because it is in the general interest. With such agreement, needed stability and flexibility will be provided during the difficult period of transition.

Second, in trade we are also approaching new negotiations on a world scale. Every country represented here can benefit from reduced barriers to trade, and there are large strands of common interest among us to be pursued in these negotiations.

More specifically, I am hopeful that our proposed domestic legislation—which contains a provision for preferential entry into the U.S. market of products from developing countries—will be passed in this session of Congress.

As we work toward more open markets, however, we must be conscious of a new threat to free trade from action to restrict supplies. We favor free trade, but it must be on a fair basis. Frankly, we are disturbed by some tendencies we see at work to restrict the supplies made available to the world market—either through exporter collusion aimed directly at influencing world prices or through export taxes and other restrictions aimed at insulating domestic markets from the general upward trend of primary-product prices. Indeed, the political processes in the United States, at a time of high prices for food, are not free of pressures favoring such insulation.

But I believe we are justified in pointing with pride to the fact that these pressures have been resisted—and we mean to keep access to our markets open. But for the long run, this commitment can be economically and politically defensible only in the context of reciprocal responsibilities. Cool and dispassionate international examination of this problem seems to be urgent. Ultimately, the problem and its solution are global in nature.

For years, the problem of inflation was one endemic to only a few nations. Yet today the problem has become worldwide, demanding a common effort in the interests of both our national and international prosperity. Many of your economies are affected directly by the price level in the United States, so let me state simply that inflation is a matter of major concern to us. We have not and will not be timid in attacking it. Budget and monetary discipline must be maintained. But the worldwide supply shortages in basic commodities have, of course, made its solution and management more difficult—a fact which only underlines the urgency for all nations to follow responsible domestic and international economic policies.

Nevertheless, there are grounds for at least cautious optimism on the outlook for prices in the United States. For example, agricultural prices have receded since the great surge that began last summer. Prices of such basic products as soybeans, wheat, corn, hogs, poultry, and beef are now below their high points by 25 to 50 percent and well below their level of a year ago. The lesson here is that once acreage restrictions were removed, letting the price incentive work freely, market forces brought forth large increases in supply. As we export two-thirds of our wheat and close to $20 billion of agricultural products each year, the drop in grain prices resulting from our increased output will help to reduce the upward pressure on prices in other nations and provide more supplies for needy nations. Since the rise in food prices in the United States accounted for roughly 60 percent of the total increase in our cost of living over the past 16 months, the impact of this decline will be most beneficial as it works its way through the economy.

The other major component of our domestic inflation has, of course, been the cost of energy, which contributed 25 percent to the rise in our domestic prices over the past 12 months. And, indeed, the energy problem poses the most serious current economic challenge to the world in general and developing countries in particular.

While no one can reasonably predict the oil prices will return to the level of a year ago, there is room for optimism on the outlook for the price of crude oil. In the short run, I believe, there will be further downward movement similar to that which has occurred in the last few months, as high prices and conservation efforts dampen demand and production returns to previous levels. In the not-so-long-run, however, high prices will stimulate a creative reaction—the world's best people and organizations will join in a concerted effort, which will inevitably result in new supplies and undreamed of substitutes, which may affect prices even more dramatically than we dare contemplate. A boom-bust price pattern is in no one's interest—not producers nor consumers—and one thing is certain, the longer prices stay high in the short run, the more likely it is that they will fall sharply in the long run. That has been the history of every other commodity in the past.

The abruptness and the magnitude of recent price increases have created problems that are virtually unmanageable for many borrowers of the Bank, as well as many other developing countries in other areas of the world. Direct and urgent measures are needed to alleviate their situation. In this context, it is essential that traditional levels of development project assistance be continued by industrialized nations. It is equally essential that oil producers who have suddenly become enormously rich join in providing aid to the poorest—particularly on a concessionary basis. We welcome the initial positive response of some oil producers who have announced their intentions to provide help to less fortunate nations, but much more must be done by them if we are to avert widespread disaster for the poorest nations.

As I mentioned earlier, energy poses a unique challenge to the Bank. In my view, operations must be examined and reoriented to take into account the changed situation emerging from energy prices, and the following suggestions are offered for your consideration in a constructive vein.

First, it will be more important than ever to use the scarce concessionary funds of the Bank for the poorest countries.

Second, the increased economic value of energy products carries as a direct and logical implication that there should be a greater emphasis on energy. And this implication applies not only to project financing by the Bank but also to the allocation of local investment resources by the member countries. But it does not exempt the initiatives elicited by these new challenges to development from meeting the rigorous and professional standards which this Bank is trying to implement in its own work and to foster at the national level. Much hard professional work therefore lies ahead in identifying the types of investment, the attractiveness of which has been most enhanced by our new assessment of economic realities in the energy sphere, and in going through the arduous work of project preparation on the specific projects of each type to be implemented.

The increased cost of energy has prompted the United States, which now produces 85 percent of its energy needs and 70 percent of its petroleum, to undertake massive and sophisticated research on the development of all forms of energy. In view of the vast reserves of coal, oil shale, and other resources available and, most importantly, of the creative talent now attracted to this effort from the relevant fields of science, engineering, and management, breakthroughs toward more abundant energy at lower cost are probable. If so, these methods and their potential lower costs will be made available to the poorer countries especially, perhaps through the procedures of the Bank.

While focusing on the problem of meeting the increased needs for capital of the developing countries in the years ahead, I wish to stress what to me is an essential point, and one which is often overlooked. Private capital—and the modern technology that accompanies it—will inevitably be of far greater importance to the pace of development than the combined total of official capital in all its forms. While official development assistance has not grown in several years, private capital—in both direct and portfolio form—has increased enormously. To take only one illustration, gross borrowings by developing countries in the international bond market and the Euromarket have increased dramatically—from under $700 million in 1971 to $5.6 billion in 1973—and significantly affected the mix between public and private loans so that the latter is nearly equal to the former.

Private capital will flow and will have its beneficial effects, but only where it gets a reasonable return and where it enjoys reasonable security. By the same token, frequent changes in rules and conditions for investment deter its flow. Encouragement of stable conditions for investment should be on the agenda of the Bank, as well as of our respective governments, not as a doctrinal matter but as a pragmatic exercise of good developmental sense.

The other side of this coin, of course, is the action of capital-exporting nations. I am particularly pleased that the tendency for many developed countries to restrain flows of capital has, at least in part, been reversed in recent months. Today, I know of no official impediments to the flow of capital from the United States, or indeed of the possibility of countries in good credit standing to tap international money markets. And there never have been significant restrictions on the movement of foreign funds into the United States in the form of either debt or equity capital. Just as we are striving to reform the monetary and trading order, we should also be working to ensure that capital in its many forms can flow freely among countries to the benefit of all. If there are remaining problems in this area, let us appraise them together and assess what needs to be done.

In looking at the economic crises and uncertainties that we have faced in the past, it becomes abundantly clear that all of our major economic problems—money, trade, investment, development, internal price stability and growth—are inextricably linked; that progress in one area can affect progress in all; and that the less developed nations are those least equipped to weather periods of economic turbulence.

If we are to solve the difficult economic problems that confront us, it is equally clear that all nations must pull together and build on the work of the men and institutions that have gone before. Of late there has been a disturbing trend for an increasing number of countries to believe their national interest can best be served by going their separate ways. History teaches us a different lesson, and I am convinced that it makes sense for us and for other nations to cooperate on a regional and global basis. Let us set about this task here in the Asian Development Bank and elsewhere.

In conclusion, Mr. Chairman, I want to reemphasize my appreciation of the leadership of the Asian Development Bank for its highly commendable efforts and record of achievement over the past year and years. I want to emphasize as well, the very strong and continuing support which the United States will give to the operations and activities of the Bank. We consider this institution to be a landmark of success and we look forward with great anticipation to even more successful achievements in the future. The United States, as well as all other developed and developing member countries of the Bank, has a great interest and a tremendous stake in its success.

This is my last annual meeting as U.S. Governor of the ADB. I will shortly be returning to private life, but may I assure you of the sustained effort of my Government and my successor to the goals I have spoken of today.

In saying goodby, I would like to pay my respects to President Inoue for his outstanding leadership in a time of great challenge for this Bank; to my fellow Governors for their spirit of friendship and professionalism; and to the men and women who make up this great institution, and who have worked the hardest at moving forward in practical ways our goals of promoting the welfare of Asia and Asians.

Exhibit 93.—Statement by Assistant Secretary Hennessy, May 28, 1974, before the Foreign Relations Subcommittee of the Senate Appropriations Committee, on participation in the international development lending institutions

I am pleased to be here today to present the administration's fiscal year 1975 appropriations request totaling $1,006 million for the international development lending institutions. I strongly urge that this committee and the Congress act favorably and appropriate the amounts requested.

Before turning to the specifics of our appropriation requests for fiscal year 1975, I would like to respond to the view that recent rapid changes in the world economy—and the energy crisis in particular—argue against our continued support of the international lending institutions. I believe the opposite is true, and that the arguments for continued U.S. leadership in this area are strengthened by recent events.

Doubts have been raised about the level of U.S. participation in the international development lending institutions in view of: (1) the overwhelming problem the developing countries face in paying for oil; (2) the possibility that money would go through borrowers' hands into oil producers' pockets; and (3) the possibility that the oil exporters will not assume responsibility for a fair share in the aid burden. These concerns are serious, but I hope to demonstrate that they are not well founded.

First, it is true that the problems confronting many developing countries are of serious magnitude—the World Bank estimates that the external capital requirements of the LDC's will increase by $10–12 billion per year from now until 1980, as a result of recent price increases of oil, food, and fertilizer. This added need for capital in the developing countries increases the urgency of assistance flows from industrialized countries. A reduction of our aid flows would only aggravate the precarious position now facing many poor nations. It would also undermine our case that newly rich nations now have to join in the international effort by contributing their fair share of international assistance.

Second, the international development lending institutions cannot be used for paying the increased oil bill of the hard-hit developing countries. The institutions finance specific development projects, and do not support imports of basic commodities such as oil.

Third, there is already concrete evidence that the oil-producing countries will recognize that their new affluence carries with it important responsibilities to poor countries. Iran has already made resources available for lending to developing countries. Venezuela is in the early stages of negotiating a trust fund under the Inter-American Development Bank of reportedly up to $500 million for financing development in poor Latin American countries, and has also pledged $30 million of new resources to the Caribbean Development Bank. Abu Dhabi, Oman, Kuwait, Libya, Saudi Arabia, and Bahrain are participating in the World Bank bond purchase programs. Several of the OPEC countries have pledged $3.3 billion toward the special new IMF facility aimed at providing assistance to countries with oil-induced balance of payments problems. An Arab Fund for African Development is under discussion, and additional resources are to be made available to Islamic countries.

There are positive overall economic and foreign policy reasons as well for us to move promptly on those appropriations which are related to the recently changed world economic situation. First and foremost, the United States cannot legitimately call for an international solution to such problems as energy, food supply, population, trade and monetary reform, if we shun our own responsibilities in the areas of international economic development. These problems are all intimately linked. To eliminate, or reduce, our contributions to the international development lending institutions would represent an inward turning on our part which could be used as a justification of similar measures by other countries, undermining the very cooperative system we are trying to strengthen. Of course, the work and effectiveness of these institutions in helping poor nations help themselves is important in its own right.

With this backdrop in mind, I would now like to discuss briefly the proposed appropriations. The total request of $1,006 million consists of a $500 million contribution to the Fund for Special Operations (FSO) of the Inter-American Development Bank (IDB); $320 million for the International Development Association (IDA); $50 million for the Consolidated Special Funds of the Asian Development Bank (ADB); and also two requests for which authorizing legislation is pending. The first of these is $120,635,000 for an increase in our Ordinary Capital contribution to the ADB; and the second is $15 million for the African Development Fund (AFDF).

While the amounts are large, the economic cost to the United States of supporting these institutions is much smaller than the aggregate figures indicate. Eighty percent, or $97 million of the $121 million requested for ADB Ordinary Capital, is in the form of a guarantee; thus only $24 million would require a budget outlay. In addition, the budgetary impact that would result from all of these appropriations would be spread over several years, and much of our contribution to these institutions returns to us in the form of payment for the sale of goods and services.

According to a recent study prepared by the Congressional Research Service of the Library of Congress for the House Committee on Foreign Affairs, the aggregate balance of payments effect of U.S. participation in these institutions has been overwhelmingly favorable to the United States. I would like to submit for the record in annex I two very instructive tables developed for this report by the Congressional Research Service and highlight their conclusion: the cumulative balance of payments result of U.S. involvement in the World Bank group (including IDA), the Asian Development Bank, and the Inter-American Development Bank (including FSO) to date has been a net surplus of $2.1 billion for the United States. Of course, as disbursements on loans are drawn down over time there could be some decline in this figure—but the point is that in balance of payments terms we can well afford the program.

In terms of our gross national product and our budget, these contributions represent less than one-tenth of 1 percent and only one-third of 1 percent, respectively. The cost of maintaining an appropriate level of international responsibility in this area is a most reasonable one, and the burden of development assistance falling on the United States has been shifting to other countries in keeping with this committee's concern. This shift is already apparent in the present ADB and AFDB appropriations requests and will be incorporated in future IDA and IDB replenishment requests.

INTER-AMERICAN DEVELOPMENT BANK

For the Inter-American Bank the administration is requesting $500 million for the Fund for Special Operations (FSO). This amount would represent the final installment of the U.S. contribution, totaling $1 billion, authorized by the Congress in March 1972, originally negotiated by the executive branch in April 1970.

The Fund for Special Operations, as you know, constitutes an important part of the Inter-American Bank's structure. Its resources, which come entirely from member country contributions, are used to support projects in the poorest Latin American countries.

Only about $100 million in convertible currencies will remain uncommitted in FSO at the end of the present calendar year. The proposed $500 million U.S. contribution now requested would allow only for maintaining FSO lending in dollars for 1975 at this year's projected level of $400 million, with some provision for 1976. This would be a bare minimum given the loan demand from the relatively poor Latin American countries which borrow the bulk of FSO funds.

Let me also address the question of the quality of the operations of the IDB, a matter that has been of major concern to this committee. Specific steps have been taken since last year to improve its work and to strengthen its organization. Committee members already know about the Group of Controllers and the good work being done on external evaluation and review of projects. The U.S. member of the group is now Mr. Edward Tennant, who was formerly Auditor General for Foreign Assistance of the Agency for International Development. Thus far, the group has completed 11 reports—the most recent ones on Planning and Programming, Global Loans to Financial Institutions, and on a regional integration organization. Recommendations contained in these reports are in the process of being implemented.

In connection with the concern of the committee and Congress about the followup on IDB loan projects, we can report the initiation by the executive branch of an active program of inspection trips to the field covering all the institutions. These have yielded concrete evidence that IDB loans are contributing successfully to economic and social development in Latin America. For example, following the last IDB annual meeting in Santiago, Chile, Members of Congress and other members of the U.S. delegation had the opportunity to see how IDB-financed projects contribute to economic and social development in Latin America.

In concluding my statement on the IDB, I want to emphasize that our request for appropriation of $500 million takes on special meaning in the light of the closer ties we are attempting to forge with the countries of Latin America, based on a concept of a community of interest. One of the subjects of greatest concern to the Latin American Foreign Ministers at two recent conferences—one in February in Mexico City, the other last month in Washington—was the general decline in U.S. contributions to inter-American institutions and to the IDB in particular. Secretary Kissinger pledged on those occasions that the executive branch would do its utmost to maintain our aid flows to Latin America. In turn, the newly oil-rich nations of the region were asked to join in helping to finance development.

INTERNATIONAL DEVELOPMENT ASSOCIATION

The $320 million we are seeking today for the International Development Association (IDA) represents the third and final installment of our $960 million contribution to the IDA third replenishment.

As the members of the committee are aware, IDA is an integral part of the World Bank, employing the same expert staff, and following the same rigorous standards of project appraisal and supervision. IDA funds go to the poorest of the developing countries, those with per capita incomes of less than $375 per year. These are countries which, because of their poverty, have extremely limited capacities for financing investment from their own savings. Similarly, their opportunities for obtaining external capital from sources other than IDA are limited, if not nonexistent. IDA is thus crucial to the hopes of their citizens for better and more fruitful lives.

Major sectors in IDA lending have been agriculture (28 percent), transportation (25 percent), and electric power (8 percent). Recently, new fields such as education and family planning have received increased emphasis, with the growing realization that improvement in human skills and the curbing of excessive population growth can be as important to economic development, if not more important, than the accumulation of physical capital.

I would also like to call your attention to the fact that in its report of May 11, 1972, on supplemental appropriations, the conference committee agreed that there was no intention of denying each of the three annual installments of $320 million in the 3 fiscal years beginning July 1, 1972.

I again urge the committee to act, as you did last year, in the spirit of that joint explanatory statement, particularly in view of the fact that our payments are 1 year behind those of other IDA donors.

Asian Development Bank

For the Special Funds of the Asian Development Bank (ADB) the administration is now requesting $50 million. This $50 million is part of a $100 million authorized contribution to the Special Funds of the ADB, of which the first $50 million was appropriated last year.

Since authorization of the U.S. contribution of $100 million in 1972, a multilateral effort has been made to establish an Asian Development Fund (ADF). The $100 million already authorized would be counted towards the U.S. contribution to the fund and would, by agreement with other donors, be tied to procurement of U.S. goods and services, ensuring direct benefits to U.S. suppliers and facilitating U.S. entry into key markets in Asia.

Last year when the Congress decided to reduce the administration's request for the first $100 million to $50 million, it recognized the beneficial burden-sharing aspects of the new ADF proposal; and the joint House-Senate conferees report stated that the conference managers had no intention of denying a fiscal year 1975 request for the balance of $50 million when presented by the administration. The conference managers supported the favorable burden-sharing arrangements embodied in the proposal of which the $100 million was a part.

Our contribution of $50 million appropriated last year, combined with the request now before you, will mobilize $250 million from other donors in their first stage contributions to the ADF. While there will be no commitment to the ADB concerning future U.S. contributions, we plan next year to request a third $50 million contribution. This would make a total U.S. contribution of $150 million, and taken with the $375 million contribution by other donors, would complete the ADF's initial resource mobilization plan, providing a total of $525 million in concessional resources to the ADF. This is in addition to the $330 million in ADB Special Funds already contributed by other donors—excluding the United States. To the extent that such contributions were made since January 1, 1973, contributors are entitled to credit them against their ADF pledges.

The fiscal year 1975 budget also includes an appropriation request for an increase in the U.S. share of capital stock in the ADB. This was also included in our request last year to this committee, but the Congress did not take action on the authorizing legislation. It is now anticipated that action on the ADB Ordinary Capital authorization will take place shortly in the Senate and subsequently in the House. The total new U.S. Ordinary Capital participation would be $362 million, of which 80 percent (about $290 million) would be callable guarantee capital and 20 percent, or about $72 million, would be paid in. Budgetary expenditures result only from the paid-in capital portion as the guarantee capital serves to back ADB borrowings in private capital markets, and would only be called in the most unlikely event that the Bank experienced sizable loan defaults.

We strongly support this proposed U.S. participation in the Ordinary Capital increase, which became effective in November 1972 and has been subscribed to uniformly by other donor nations. As a result of our not subscribing, our present voting power has dropped from 18 percent to 8 percent, putting us below that of Japan, India, and Australia. Participation in this capital increase will enable the United States to regain a level of voting strength which will reflect U.S. interests in the Bank and the Asian area.

Finally, Mr. Chairman, I would like to comment on the issue of procurement and the U.S. share in the Asian Bank. Both you and we have been greatly concerned about increasing the percentage of contracts resulting from ADB-financed projects awarded to U.S. business firms. In this respect, Mr. Chairman, our expectations were largely realized in 1973. U.S. procurement from the Bank's Ordinary Capital lending operations more than doubled last year from 8 percent to 17 percent—a marked improvement, which is largely attributable to the exchange rate realignments effected since 1971. Nevertheless, in order to improve the U.S. position further, we will intensify our contracts with U.S. firms, and improve the flow and distribution of information to private U.S. firms on upcoming ADB procurement opportunities.

African Development Bank

This year's appropriation proposal contains our first request for a U.S. contribution to the soft-loan facility—known as the African Development Fund (AFDF)—of the African Development Bank (AFDB). Since this is the first time that the committee has been formally asked to consider U.S. participation in this fund, I have attached a brief outline of the history of the AFDB and the AFDF. (See annex II.)

The African countries worked hard to create their own regional bank and have contributed their own resources in an admirable demonstration of self-help.

The AFDF will contribute significantly to African development by specializing in small, high-priority projects directed at the very poor of the region, and by promoting the regional integration so essential to Africa's development. While the amount requested is small and is not contemplated to increase significantly in the next few years—for example, we are not planning any requests in addition to this $15 million for next year—it is important that the United States show its concern for, and interest in, the development of the countries of Africa through the concrete step of participation in the AFDF. All other major industrial nations except France have joined the fund, and both Canada and Japan have already pledged contributions of $16.5 million each—more than our request before you.

The cost to the United States of participating in the fund is small and entirely reasonable. We would be only 1 of 16 nations to contribute. The total contribution from these 16 donors and from the AFDB itself would be about $115 million, over $85 million of which is already subscribed. Our proposed contribution of $15 million is only 13 percent of this total. Contributions by the donor countries are being made over a 3-year period. The expected U.S. budget outlay would be only $1 million in fiscal year 1975.

At the same time, I wish to confirm to this committee that the United States has undertaken no commitment to participate in the fund, although the United States participated actively in drafting the Articles of Agreement of the AFDF in order to be assured that it would be put on an effective and soundly managed basis.

Legislation to authorize U.S. participation in the AFDF with a contribution of $15 million has been introduced by Senator Humphrey in the Senate. It is our hope that once Congress has completed its consideration of the pending authorizing legislation for the International Development Association it will then turn its attention to the request for the AFDF.

In sum, Mr. Chairman, we feel that these appropriation requests deserve your approval and support. They are of great importance to our overall international economic objectives. The institutions involved are run on a sound basis and provide development assistance competently. This assistance is of direct and lasting benefit to the developing countries, and because of our worldwide interests, to the United States itself. The current international economic situation lends added importance to this request. To withdraw our support from these institutions now would be shortsighted and particularly damaging to our broader interests.

It is the responsibility of the Congress to weigh this request against competing priorities. The thrust and weight of my testimony has been directed towards convincing you that this request deserves a very high priority. Its benefits are manifest, important, and affordable. I firmly believe it should receive your support.

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ANNEX I

TABLE 1.—*Balance of Payments Between United States and Banks, Cumulative (inception to 1973)*[1]

	Millions
U.S. payments to banks:	
World Bank group subscriptions	$1,460.2
Inter-American Bank subscriptions	964.8
Asian Bank subscriptions	55.3
World Bank bond sales in United States	2,492.0
Inter-American Bank bond sales in United States	423.2
Asian Bank bond sales in United States	52.0
WBG earnings on investments in United States	1,284.0
IDB earnings on investments in United States	221.3
ADB earnings on investments in United States	39.1
Total U.S. payments to banks	6,991.9
Bank payments to the United States:	
World Bank group U.S. procurement	4,391.0
Inter-American Bank U.S. procurement	733.0
Asian Bank U.S. procurement	12.5
WBG interest to U.S. bondholders	1,308.0
IDB interest to U.S. bondholders	149.7
ADB interest to U.S. bondholders	7.0
WBG administrative expenses in United States	617.9
IDB administrative expenses in United States	184.3
ADB administrative expenses in United States	16.5
WBG net long-term investments in United States	2,094.0
IDB net long-term investments in United States	68.5
ADB net long-term investments in United States	82.0
Bank payments to the United States	9,664.4
Net U.S. payments surplus	2,673.5

[1] Data for World Bank group by fiscal years (July 1-June 30); IDB and ADB data by calendar years; tables exclude data on IFC and SPTF, to which the United States has contributed $35 million and $525 million, respectively, but for which other data are unavailable.

TABLE 2.—*Annual Balance of Payments Effects of the Banks, Aggregate 1965–72* [1]

[Dollars in millions]

1965	$225	1969	$342
1966	593	1970	453
1967	361	1971	−228
1968	87	1972 [2]	471

[1] Excludes FSO data, for which data are unavailable on an annual basis. Except as discussed later in the text, FSO contributors are usually tied to procurement in the donor country. Years are by fiscal year for World Bank group and calendar year for ADB and IDB.
[2] Excludes ADB data, which are unavailable for 1972. The 1971 ADB figure was −$34.

Source: Foreign Affairs Division, Congressional Research Service, Library of Congress; *The United States and the Multilateral Development Banks;* prepared for the Committee on Foreign Affairs; March 1974, pp. 148-9.

ANNEX II

PROSPECTIVE U.S. PARTICIPATION IN THE AFRICAN DEVELOPMENT FUND

The African Development Bank was established in 1964, when many of its member countries had just gained independence, and now has a membership of 39 African countries. The capital structure of the Bank is composed of both paid-in and callable capital just as in the other international financial institutions. As of the end of 1973, this capital amounted to $385 million, of which $130 million is paid in and the remainder callable. As of the same date, the Bank had authorized $130 million in loans for 60 individual projects in 31 member countries. All projects have been financed at near-market terms, i.e., 6–8½ percent interest and maturities of 10 to 20 years.

It has been recognized for some time that many African nations are in acute need of concessional lending resources from the industrialized nations. It was to meet this need and to encourage the commitment of resources from outside the African region that the African Development Fund was established. In 1966 the Bank started discussions with the United States and other developed countries on the possibility of establishing a concessional loan fund in association with the Bank. The donor nations, including the United States, agreed upon principles for the establishment of the fund at a Development Assistance Committee meeting of the OECD in March 1971. After approval by the Board of Governors of the Bank, the African Development Fund was established on June 30, 1973.

The United States participated actively in the drafting of the Articles of the fund. We wanted to be assured that the fund would be put on a sound basis and would be effectively managed. We believe we succeeded fully in this objective and that major efforts were made to meet well-known congressional concerns. For example, the Articles of the fund, alone among the development institutions, contain a provision requiring a comprehensive and continuing review of completed projects by an audit committee reporting to the Board of Directors.

The fund is legally separate from the Bank and managed by its own Board of Directors, consisting of six representatives of the donor countries and six Bank Directors, with each group holding 50 percent of the total voting power, and a 75 percent weighted vote for all operational decisions. As in the case of the concessional funds of the other international development lending institutions, the fund uses the Bank's staff and draws upon its experience and expertise.

By the end of the last year, 13 other industrial nations had ratified the fund statutes and pledged a total of more than $90 million. In addition, the Bank has committed to the fund approximately $6 million from its own earnings. Although only in existence a little over 8 months, the fund has already made three loans totaling about $5 million for irrigation and assistance programs in the countries of the Sahel, as a result of an initial decision to give priority in its lending to this drought-stricken disaster area.

A soft-loan window for Africa has been urgently needed. Africa is the least developed continent. Its peoples are the poorest in the world. In per capita GNP terms, 43 of its countries have incomes of less than $360 and 10 of these have incomes of less than $100. Yet, the loans from the Bank's Ordinary Capital resources have had to be on near-commercial terms. This is a serious limitation since many of the pressing development projects in Africa cannot be financed on conventional terms. Many of these projects are not directly profitable in the short run but they are indispensable for economic and social progress. Their financing must be on more lenient terms and conditions than those offered by the Bank's Ordinary Capital resources. The fund can provide the resources on the terms required. It can also promote the sort of regional economic integration and joint development projects which the United States has always supported as necessary in countries with small markets.

The fund can also serve as a magnet to attract capital from the oil-rich countries of the region. We already have indications of the willingness of oil-exporting nations of Africa to increase their contributions for the economic development of the continent. Libya, Nigeria, and Algeria will increase their participation in the African Development Bank's Ordinary Capital. Libya has also indicated its willingness to give the Bank access to a special pool of $100 million in development funds it has created.

The United States stands to benefit substantially from a modest role in the fund. Our relations with Africa have assumed greater significance as the developed world's need for industrial minerals and fuels has drawn U.S. investors and traders to Africa. A growing consciousness of the limits on world resources has highlighted the economic potential of the area. To illustrate, the continent possesses 42 percent of the cobalt, 34 percent of the bauxite, 17 percent of the copper, and about 23 percent of the world's known reserves of uranium ore. Africa will necessarily be an increasingly important source of vital U.S. imports. Thus, our enlightened self-interest dictates that we build sound economic relations with the nations of Africa. Participation in and support of the fund is one means of furthering this goal. Participation in the fund would also be perceived by the African nations as an indication of our interest in their growth and prosperity.

Furthermore, under the Articles of the fund, procurement of goods and services for projects financed by the fund may only be from member nations. Thus, until the United States joins the fund we will be precluded from this potentially substantial source of export earnings, particularly if the fund should be expanded by the contributions of the other countries.

Exhibit 94.—Statement by Secretary Simon, June 11, 1974, before the Subcommittee on International Finance of the House Banking and Currency Committee

I am glad to have this opportunity to answer directly the questions and concerns about the proposed fourth replenishment of the International Development Association that were raised on the House floor last January. These issues have now been examined in detail in the Senate and, as you know, the Senate passed its version of the IDA bill 2 weeks ago by a two-to-one majority.

Before turning to the specific questions, let me say at the outset why I think that the United States cannot afford to reject making this contribution to IDA. In our own interest and in the interest of a stable world economy, we are trying to bring about, through negotiation, extensive reform of the international monetary and trade systems, and to promote a cooperative approach to energy problems. If we are not willing to cooperate in providing a fair share of development finance, our industrialized country negotiating partners will react accordingly in these other areas. Since all of these fields are interrelated, we would pay a high price in our other negotiations if we shirk our fair share in IDA.

All other industrialized nations are in agreement with this new contribution, and U.S. failure to participate would be interpreted correctly as unwillingness, on our part, to bear a fair part of a critical international effort.

Since I have been deeply involved in the energy crisis and our Nation's response, I was, and continue to be, keenly aware of the serious threat to our economic well-being posed by higher oil prices and our dependency on foreign sources of supply. Nevertheless, when the administration's proposal on IDA replenishment was presented to the House of Representatives early this year, I believe—as I do now—that the United States, in its own interest, could not afford to withdraw from its role in international cooperation through IDA. Secretary of State Kissinger and Secretary of the Treasury Shultz also had this in mind when they issued a joint statement after the IDA replenishment proposal was voted down by the House last January. At that time they said that ". . . In this most critical of times for international amity and harmony this action represents a major setback to our efforts of cooperation and to the ability of the United States to provide leadership in a world where there is an increasingly serious tendency for nations to believe their best interest lies in going it alone."

I would like to turn now to several specific concerns that arose in the House debate last January.

First and foremost, the timing and appropriateness of a large new contribution for assistance was questioned when our Nation was faced with one of the most serious economic crises in its history. We were faced with an oil embargo by Arab countries which plunged us into an energy crisis. The shortage of petroleum was compounded by its soaring costs. The tragic war in the Middle East had grave implications for oil supply and gave rise to great uncertainty in both the developing countries and developed countries alike.

Today, issues which gave the House of Representatives such grave doubts have been largely clarified and resolved. The Arab oil embargo no longer exists. By the efforts of the U.S. Government—of which we can be proud—we have the makings of peace in the Middle East. Domestic shortages of petroleum products are coming close to being eliminated. Higher oil prices do continue to pose serious problems for us and even more for our other industrial trading partners, such as Japan, Germany, and England. But this should not be the rationale for not moving ahead now on the IDA. We are attacking the price problem directly—at home by reducing demand and increasing supply through several actions such as encouraging the leasing of offshore oil areas. Abroad, we are working with other consumer nations on joint approaches and with OPEC nations to demonstrate to them that their own economic self-interest is founded on a strong world economy and on being responsible petroleum suppliers at reasonable prices. Just last week, we began our own discussions with Saudi Arabia on improving cooperation on oil both bilaterally and multilaterally.

But for most of the poorest countries, in which the majority of the world's population reside, the problem threatens destitution and starvation, as they not only face the rising costs of energy but of fertilizer and food as well. With few exceptions these poorest nations are struggling to maintain already low per capita incomes. It is, therefore, more important than ever that the IDA—which will be out of money this month—be able to continue its lending operations. We will not, through this vehicle, be meeting the oil bills of these poor countries; but rather maintaining the momentum of a key existing aid program.

A second major area of concern in the House last January was that a contribution to the IDA would be useless or, worse, would only be passed through the less developed countries to the oil-rich countries to buy petroleum at higher prices. Let the oil-rich pay our share, some contended. It is understandable that the doubts raised by the implications of higher oil prices led the House of Representatives to react negatively to the IDA bill last January.

In answering this question I would like to lay to rest one wrong impression about the use of IDA funds. Neither the IDA funds nor the funds from any of the international development banks go to finance oil imports. These funds are lent for specific development projects. The money goes for such projects as hydroelectric dams, thus broadening the base of the world's energy resources; for fertilizer plants, to maximize the economic use of natural gas deposits; for roads, railroads, and ports, to facilitate the transport of raw materials; and for semimanufactured products upon which we in the United States, as well as other industrialized nations, are increasingly dependent for our continued prosperity.

IDA credits are also made for agriculture to increase the world's food production; and for education and public health, to increase the abilities of people to produce and earn a sustainable living in basic human dignity. That is how these funds are used. And if IDA did not furnish the funds, the majority of projects would simply not go forward because the nations do not have the domestic savings or a strong enough international credit standing to finance them alone.

I should, however, point out that IDA does not finance the whole project. The borrowing nations themselves are requested to make a self-help effort by putting up more than 60 percent of the total costs from their own budget funds or by locally borrowed funds. The IDA—like the other development banks—is an economic catalyst, and a supplier of seed capital upon which a less developed country grows.

A third question raised in the House last January also showed concern about responsibility of the oil-producing countries with their enormous new revenues. Don't they have a special responsibility toward the less developed countries to assume an increased share of the cost of economic development assistance, or at least attempt to moderate the disastrous impact higher oil prices have on less developed countries? The answer, of course, is that they do.

While the concrete commitments have been few thus far, there has been progress and solid evidence that the oil-rich countries will recognize that their new affluence carries with it important responsibilities toward the hardest hit, less developed countries.

Oil-producing countries have pledged $3 billion to a special facility in the International Monetary Fund to help countries cope with international price increases; they have also purchased over $600 million of World Bank bonds to permit further development lending, and expect to make a larger amount of such purchases next year. Venezuela is actively negotiating a half-billion-dollar trust fund in the Inter-American Bank. Iran is extending substantial bilateral assistance within the Middle East and Asian regions. Kuwait is expanding its Economic Development Fund from $600 million to $3 billion for worldwide concessional lending, although expansion may be temporarily slowed somewhat because of the Fund's shortage of qualified technical personnel. The framework of a $1 billion-plus Islamic Development Bank is now being finalized. While virtually all of these resources are being made available on relatively favorable terms, it is clear that continuing emphasis must be placed on the need for resources on truly concessional terms.

But increased economic assistance from oil-producing countries in helping to meet the problems faced by the poorest countries cannot substitute for our own efforts or those of other industrialized nations. No other industrialized nation is cutting back on its IDA contribution, no matter how hard the energy crisis has hit it. A reduction of our support for the IDA and the other multilateral economic assistance efforts would not only aggravate the extremely difficult situation in which many poor nations now find themselves; it would undermine our position that the newly rich oil-producing countries should join in contributing their fair share of international economic assistance.

A fourth point posed in the House concerned the question of whether the United States could afford this new contribution to IDA, particularly in a period of dangerous inflation. Are we not doing too much already? Shouldn't other industrialized nations do more?

As to our affording it, let me put the matter in its proper perspective. Our annual IDA contributions represent only three one-hundredths of 1 percent of our total product, and only about one-tenth of 1 percent of our budget. The cost of this assistance to each American is about $1.80 a year, while IDA can make the difference between life and death to large numbers of people in developing countries.

And while inflation is the single greatest economic problem facing the United States and indeed the world, this must be solved by attacking the problem directly. I have pledged to combat inflation with a responsible Government spending program, and I mean to carry out that pledge. This does not mean that we should cut programs vital to our own interests. IDA is just such a program and, since the funds would be spent over a period of years beginning in fiscal year 1976, the impact would not affect our current battle with inflation.

Now what are others doing? Other nations have agreed to a reduction in our share in the IDA replenishment to one-third in this replenishment. This was, of course, before the energy crisis, which, as I said, hit most other IDA contributors harder than it did the United States. Therefore, a share of one-third is fair to the United States. Moreover, the balance of payments effects of our participation in the multilateral institutions as a group has been positive.

While our one-third share of IDA is $1.5 billion out of a total of $4.5 billion, the fourth IDA replenishment, unlike earlier IDA replenishments, allows the United States a 4-year appropriation period instead of 3, and accordingly, the Senate amended the original bill to indicate precisely that our contribution would be $375 million per year for 4 years beginning in fiscal year 1976. In our previous presentation to the Congress, this was not clear. By comparison, our current annual contribution to the IDA is $386 million per year. This is composed of $320 million per year from the third IDA replenishment, plus $66 million per year to take into account the changes in the official value of the dollar. The $375 million per year requested here will not be subject to additional payments, even if there were further devaluations of the dollar at a future date. In other words, the maintenance of value provision in past IDA replenishments was eliminated in our international negotiations, in recognition of the strong sentiment in the Congress to avoid additional payments should the value of the dollar change.

These, then, are the answers to the criticisms and concern raised on the House floor when it considered the original authorizing legislation for the fourth replenishment of IDA. And, as I said at the outset, there are good, solid, positive reasons to go forward with this legislation. This committee recognized these reasons when it reported out the IDA replenishment legislation last December. Let me simply reiterate here that IDA lends to the poorest of developing countries, that it has proven its effectiveness, and that it is important, not only in its own right, but also as a vital part of the world economic order we are striving to create in the interest of ensuring stability and prosperity for the United States.

Exhibit 95.—Statement by Under Secretary Bennett, June 27, 1974, before the Senate Foreign Relations Committee, on proposed U.S. contribution to the African Development Fund

Mr. Chairman, I appreciate the opportunity to be here today to testify in support of S. 2354, which would authorize a U.S. participation of $15 million in the African Development Fund—the AFDF—a soft-loan facility associated with the African Development Bank. The authorization legislation was introduced in the Senate by Senator Humphrey last summer, and the administration has included a $15 million request in the fiscal year 1975 budget.

The fund was established in June 1973 after several years of discussion and negotiation with pledges of about $80 million from other industrialized nations. The purpose of the AFDF is to complement the activities of the African Development Bank (AFDB), by providing concessional financing for high-priority development projects, both in individual member countries of the Bank and for regional projects.

Africa is the least developed continent. Its peoples are the poorest in the world. About 75 percent of the African people are engaged in subsistence agriculture with a per capita yearly income of less than $100 in half the countries. By comparison, U.S. GNP per capita stands at $5,160. When people live at the margin of existence this way, they are especially hard hit by economic crises and natural disasters.

For example, the sustained drought in the Sahel countries on the southern edge of the Sahara has caused staggering losses of livestock and crops, leaving the populations destitute and facing the possibility of widespread starvation. Since the countries of Africa are presently extremely poor, they have little ability to absorb such shocks. Although the fund is not large in terms of Africa's needs, it can make a unique contribution to solving problems in the areas of integration and smaller projects, which the larger lending institutions cannot efficiently handle.

As this is the first time this committee is formally considering U.S. participation in this fund, I would like to summarize briefly for you the history of the African Development Bank and the African Development Fund.

The African Development Bank was established in 1964 as a result of African initiative to assist in the economic and social development of the newly independent African nations and to promote economic cooperation among them. As with the other regional development lending institutions, the Inter-American Development Bank and the Asian Development Bank, where regional efforts are effectively directed at regional problems, the AFDB serves as a focus for Africans to find solutions to their own development problems. Its membership now stands at 39 African countries. Unlike the other international financial institutions, the AFDB has no industrialized countries among its membership. It, therefore, represents a significant self-help effort by African nations to build a strong, viable African institution.

As of December 31, 1973, the Bank's paid-in capital amounted to $127 million—all from African countries and all in convertible currencies. Additional capital subscriptions are scheduled to be paid in over the next 3 years. The Bank also had about $5 million of borrowed resources.

Initially relying on a base of capital-poor countries and few trained personnel, the AFDB has successfully built a viable lending operation and a very capable professional staff. As of the first of this year, the Bank had authorized $127 million in loans for 53 individual projects in 29 countries, and 4 regional projects. The Bank's lending activities have emphasized roads and public utilities, the basic infrastructure which is severely lacking in Africa. All the Bank's loans have been at near-market terms, i.e., 6–8½ percent and maturities of 10 to 20 years. Clearly African in ownership and outlook, the Bank is playing a growing role as an articulator of economic issues in Africa.

In 1966, the Bank undertook discussions with the United States and other developed countries about the possible establishment of a concessional loan facility which would be associated with the Bank. The resources for this fund were to come from non-African donor nations. In March 1971, donor nations, including the United States, agreed to a set of principles which would govern the establishment of the fund. After approval by the Board of Governors of the Bank, the African Development Fund was established on June 30, 1973.

The fund is legally separate from the Bank and managed by its own Board of Directors, consisting of six representatives of the donor countries and six Bank Directors. Each group holds 50 percent of the total voting power. A 75 percent weighted vote is required for all operational decisions. If the United States participates before December 31, 1974, we will be entitled to a seat on the Board of Directors.

As in the case of the concessional funds of the other international development lending institutions, the fund uses the Bank's staff and draws upon its experience and expertise.

The United States participated actively in the drafting of the Articles of the fund, in order to be assured that the fund would be established as an effective and soundly managed institution. We believe we have succeeded in this objective. The end product meets well-known congressional concerns resulting from our experience with the other IFI's. For example, the Articles of Agreement of the fund contain a requirement for review of completed projects by an audit committee reporting to the Board of Directors.

I would like to make clear that, while U.S. representatives took part in preparatory work for the fund, no commitment to join the fund has been undertaken on behalf of the United States. The U.S. representatives clearly indicated throughout these preparatory discussions that U.S. participation in the fund was subject to congressional review and approval. The discretion of the Congress to decide on U.S. participation has been fully preserved.

Since the fund's creation in 1973, 15 donor nations have pledged contributions of about $100 million, approximately $80 million of which has been subscribed. Our proposed contribution of $15 million would bring the level of total contributions to about $115 million. We would be the third highest contributor, after Canada and Japan, who have pledged $16.5 million each.

I believe the United States stands to benefit from a modest role in the fund. Our relations with Africa have assumed greater significance as U.S. investors and traders have been drawn increasingly to Africa. Our national interest dictates that we build cooperative economic relations with the nations of the continent. Participation in and support of the fund is one means of furthering this goal. Participation in the fund would be perceived by the African nations as an indication of our interest in their growth and prosperity; conversely, the absence of the United States from the fund would be a highly conspicuous one that could only be costly in terms of the political relations we are trying to build with the African continent.

The developed world's need for industrial minerals and fuels and the growing consciousness of the limits on world resources has highlighted the economic potential of Africa. To illustrate, the continent possesses 42 percent of the world's cobalt resources, 34 percent of the bauxite, 17 percent of the copper, and about 23 percent of the world's known reserves of uranium ore. Africa will, thus, necessarily be an increasingly important source of vital U.S. imports.

Financing on the lenient terms proposed for the AFDF will be particularly appreciated and welcomed by African countries because it will permit a greater proportion of the benefits of these loans to be retained by the borrowing country for the financing of further development projects.

The fund can also serve to encourage development assistance by the oil-rich countries of the region. We already have indications of the willingness of oil-exporting nations of Africa to increase their contributions for the economic development of the continent. Libya, Nigeria, and Algeria have already agreed to increase their participation in the African Development Bank's Ordinary Capital. The Arab oil producers are also involved in active discussions on the provision of short-term assistance to African nations for oil purchases as well as long-term concessional development assistance. A figure of $200 million has been mentioned in this connection, but the relationship of these proposed funds to the AFDB has not yet been defined.

Although in operation for less than 1 year, by May 31, 1973, the fund's Board of Directors had approved nine projects and studies involving total commitment of about $23 million. Of these projects, five were for irrigation and water development in the severely drought-affected countries of the Sahel. I wish to emphasize that resources of the AFDF have not been and will not be used to finance oil imports. These resources can only be used for specific development projects.

We estimate the impact on the U.S. budget of the proposed $15 million contribution to the fund will be quite small and spread over a number of years. We would seek appropriations that would permit us to complete our contribution within the same period applicable to other donors, i.e., by fiscal year 1976. Initially, we would contribute in the form of non-interest-bearing letters of credit, which would become budget outlays only when cashed as needed. Outlays in FY's 1975 and 1976 would total about $1 million each, with an increase to $2 million in the following 2 fiscal years, and $3 million in the following year. The cost to the United States of participation in the fund is, therefore, small and entirely reasonable.

Under the Articles of the fund, procurement of goods and services for projects financed by the fund may only be from member nations. Thus, until the United States joins the fund we will be precluded from this potentially substantial source of export earnings, particularly if the fund should be expanded by the contributions of the other countries.

Action by the Congress before the end of this year on the proposed U.S. contribution of $15 million would enable the United States to participate in the fund as an original member. It is our firm conviction that such participation is in the interest of the United States. The President has, on several occasions, expressed his strong support for U.S. membership. The cost of this participation is small, and our percentage share uniquely low. Yet potential benefits to the United States are significant: increased economic presence in an area of growing importance to the United States, demonstration of our concern for the development and prosperity of the region, and the opportunity to benefit from the export market generated by the fund's activities. For these reasons, I urge this committee to act favorably on this authorization request for the African Development Fund.

Testimony on International Matters

Exhibit 96.—Other Treasury testimony in hearings before congressional committees

Under Secretary for Monetary Affairs Volcker

Statement published in hearings before the Committee on Appropriations, House of Representatives, 93d Congress, 1st session, on effect of 10 percent devaluation in par value of the dollar, September 14, 1973, pp. 4–10.

General Counsel Schmults

Statement before the Subcommittee on Foreign Operations and Government Information of the Committee on Government Operations, House of Representatives, April 30, 1974.

Deputy Under Secretary Bennett

Statement published in hearings before the Subcommittee on International Finance of the Committee on Banking, Housing and Urban Affairs, U.S. Senate, 93rd Congress, 1st session, on Export-Import Bank legislation, October 29, 1973, pp. 50–52.

Assistant Secretary Hennessy

Statement before the Foreign Operations Subcommittee of the Committee on Appropriations, House of Representatives, March 18, 1974, on appropriations for international development lending institutions.

Statement before the Foreign Operations Subcommittee of the Committee on Appropriations, House of Representatives, March 20, 1974, requesting appropriation for U.S. contribution to the African Development Bank.

Organization and Procedure

Exhibit 97.—Treasury Department orders relating to organization and procedure

No. 165–24, June 29, 1973.—Delegation of Functions to the Commissioner of Customs

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, the functions transferred to me by section 2 of Reorganization Plan No. 2 of 1973 are hereby delegated to the Commissioner of Customs.

George P. Shultz,
Secretary of the Treasury.

No. 190, Revision 9, July 2, 1973.—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
- Special Assistant to the Secretary (National Security)
- Special Assistant to the Secretary (Public Affairs)
- Assistant to the Secretary (Legislative 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
- Energy Advisor
- Assistant Secretary (Tax Policy)
  - Office of Tax Analysis
  - Office of Tax Legislative Counsel
  - Office of International Tax Counsel
  - Office of Industrial Economics
- Assistant Secretary (Enforcement, Tariff & Trade Affairs, & Operations)
  - Office of Law Enforcement
  - Office of Operations
  - Office of Tariff and Trade Affairs
  - Office of Foreign Assets Control
  - 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 Management and Organization
  - Office of Personnel
  - Office of ADP Management and Operations
- Commissioner of Internal Revenue
- Comptroller of the Currency
- Office of Revenue Sharing

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
- 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 8) is rescinded, effective this date.

GEORGE P. SHULTZ,
Secretary of the Treasury.

NO. 160, REVISED, JULY 9, 1973.—DELEGATION OF AUTHORITY CONCERNING IMPLEMENTATION OF EXECUTIVE ORDER 11652, AS AMENDED, AND THE NATIONAL SECURITY DIRECTIVE OF MAY 17, 1972

By virtue of the authority delegated to me as Secretary of the Treasury by Executive Order 11652, 37 F.R. 5209, and National Security Council Directive of May 17, 1972, 37 F.R. 10053 (hereinafter referred to as the Executive Order and Directive), it is hereby ordered as follows:

Sec. 1. *Compliance responsibility.* The Assistant Secretary for Administration is delegated the authority to insure effective compliance with the implementation of the Executive Order and Directive and the Treasury regulations published thereunder in Part 2 of Title 31 of the Code of Federal Regulations. The Assistant Secretary for Administration is specifically delegated the authority to assign personnel to assist the Archivist of the United States in the exercise of his responsibility to review systematically for declassification all Treasury Department material classified before June 1, 1972, and more than thirty years old, and to perform other functions specified in Part II D of the Directive.

Sec. 2. *Authority to classify.*

(a) *Top Secret.* The authority to classify information or material as Top Secret, Secret, or Confidential within the Department of the Treasury is hereby delegated to the Deputy Secretary, the Under Secretary for Monetary Affairs, the Under Secretary, the General Counsel, the Deputy Under Secretaries, the Assistant Secretaries, the Special Assistant to the Secretary (National Security), the Special Assistant to the Secretary (Public Affairs), and the Assistant to the Secretary for Legislative Affairs.

(b) *Secret.* The authority to classify information or material as Secret or Confidential within the Department of the Treasury is hereby delegated to the heads of bureaus.

(c) *Confidential.* Officials who possess Top Secret or Secret classification authority are hereby delegated the authority to designate in writing by title of position other officials who may exercise Confidential classification authority within the Department of the Treasury.

Sec. 3. *Authority to downgrade and declassify.* The authority to downgrade and declassify national security information or material within the Department of the Treasury shall be exercised by the following officials:

(a) The official authorizing the original classification, a successor in that capacity, or a supervisory official of either.

(b) An official specifically authorized in writing by an official authorized to classify information or material as Top Secret or Secret.

Sec. 4. *Departmental Committee on National Security Information.* There is hereby established a Departmental Committee on National Security Information which shall be composed of the Assistant Secretary for Administration, as chairman, and the General Counsel and the Special Assistant to the Secretary (National Security), as members. The functions of the Departmental Committee shall include the following:

(a) Review of and action upon applications and appeals regarding requests for declassification, as provided in the Treasury regulations, 31 CFR Part 2, implementing the Executive Order and Directive.

(b) Review, upon request, of all decisions denying Treasury information and material on the ground of exemption under 5 U.S.C. 552(b)(1) except decisions of the Secretary of the Treasury continuing the classification of material over thirty years old under Part III D of the Directive and the Treasury regulation thereunder, 31 CFR 2.40.

(c) Action upon complaints in the administration of the Executive Order and Directive and the Treasury regulations thereunder.

(d) Establish the policy of the Department with respect to the enforcement of the Executive Order and Directive and the Treasury regulations thereunder.

Sec. 5. *Data Index System.* The Assistant Secretary for Administration is delegated the authority to establish a Data Index System in accordance with Part VII of the Directive. The Office of Administrative Programs, Assistant Director (Physical Security) shall maintain the Departmental Data Index System control file for all national security information or material originally classified within the Department.

Sec. 6. *Training, orientation and inspection.* The Office of Administrative Programs, Assistant Director (Physical Security), is hereby delegated, subject to the direction of the Assistant Secretary for Administration, the functions of establishing, coordinating and maintaining active training, orientation and inspection programs for employees concerned with classified information or material to assure that the provisions of the Executive Order and Directive are effectively administered throughout the Department of the Treasury.

Sec. 7. *Supersession.* This Treasury Department Order supersedes Treasury Department Order No. 160, Revised, entitled "National Security Information," issued under Executive Order 11652, August 3, 1972, 37 F.R. 20990.

Effective date: July 1, 1973.

GEORGE P. SHULTZ,
Secretary of the Treasury.

NO. 223, AMENDMENT 1, AUGUST 5, 1973.—NAME CHANGE TO OFFICE OF COMPUTER SCIENCE

Pursuant to the authority delegated to me by Treasury Department Order No. 190 (Revised), the name of the Office of Automatic Data Processing Management and Operations is hereby changed to Office of Computer Science.

WARREN F. BRECHT,
Assistant Secretary for Administration.

NO. 189, REVISION 2, AUGUST 5, 1973.—DESIGNATION OF DIRECTOR AND DEPUTY DIRECTOR OF EQUAL EMPLOYMENT OPPORTUNITY AND PRINCIPAL AND DEPUTY COMPLIANCE OFFICER

I hereby designate the Assistant Secretary for Administration to be Treasury's Director of Equal Employment Opportunity and Principal Compliance Officer, with full authority to act for me on equal employment opportunity matters with respect to both Treasury and contractor personnel.

I hereby transfer supervision of the Office of Equal Opportunity Program from the General Counsel to the Assistant Secretary for Administration.

I further designate the Director of the Office of Equal Opportunity Program to be the Deputy Director of Equal Employment Opportunity and the Deputy Compliance Officer. The Assistant Secretary for Administration may delegate to the Director of the Office of Equal Opportunity Program the authority to make decisions and dispositions on complaints of discrimination, acceptance of affirmative action plans by Treasury components and to make determinations of the compliance posture of contractors. This authority may not be redelegated by the Director.

This Order supersedes Treasury Department Order 189, (revised) of May 3, 1969.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 177–25, REVISION 2, AUGUST 8, 1973.—DELEGATION OF AUTHORITY

Pursuant to the authority vested in the Secretary of the Treasury, including that vested in him by delegation from the Administrator of General Services, FMPR Temporary Regulation D–40 (July 25, 1973) 38 F.R. 20850, and pursuant to the authority vested in me by Treasury Department Order No. 190 (Revision 9) (July 2, 1973) 38 F.R. 17517:

(1) Authority is hereby delegated to the Director of the United States Secret Service to appoint uniformed guards as special policemen, to make all needful rules and regulations, for the protection of the Treasury Building and Treasury Annex, Washington, D.C.;

(2) Authority is hereby delegated to the Director of the Bureau of Engraving and Printing to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the Bureau of Engraving and Printing and Bureau of Engraving and Printing Annex, Washington, D.C.;

(3) Authority is hereby delegated to the Director of the Mint to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the United States Mint, Denver, Colorado; United States Bullion Depository, Fort Knox, Kentucky; United States Assay Office, 32 Old Slip, New York, New York; new United States Mint, Fifth and Arch Streets, Philadelphia, Pennsylvania; United States Assay Office, 155 Hermann Street, San Francisco, California; the old United States Mint Building, 88 Fifth Street, San Francisco, California; and the United States Bullion Depository, West Point, New York.

The authority conferred by this order shall be exercised in accordance with the Act of June 1, 1948, as amended (62 Stat. 281; 40 U.S.C. 318–318c).

This order revises Treasury Department Order No. 177–25 (Revision 1, (September 25, 1970)) and is effective from July 25, 1973.

EDWARD L. MORGAN,
Assistant Secretary of the Treasury.

No. 150–82, AUGUST 9, 1973.—DELEGATION OF AUTHORITY TO PERFORM PRICE STABILIZATION FUNCTIONS

Pursuant to the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and the delegation of authority to me as Secretary of the Treasury by Cost of Living Council Order No. 37, it is ordered that:

1. The authority to perform all functions delegated to me by Cost of Living Council Order No. 37, is hereby redelegated to the Commissioner of Internal Revenue. This authority is to be exercised subject to the policy guidance and discretion of the Director of the Cost of Living Council.
2. The Commissioner may redelegate this authority to any official of the Internal Revenue Service.

This Order shall become effective upon issuance.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 189, Revision 2, Supplement 1, August 13, 1973.—Delegation of Equal Employment Opportunity Functions

I hereby delegate to the Director of the Office of Equal Opportunity Program the authority to make decisions and dispositions on complaints of discrimination, acceptance of affirmative action plans by Treasury components, and determinations of the compliance posture of contractors. This authority may not be redelegated by the Director.

This Order supplements Treasury Department Order No. 189 (Revision 2) of August 5, 1973.

Warren F. Brecht,
Assistant Secretary for Administration.

No. 150-83, August 21, 1973.—Delegation of Authority To Act as "Competent or Taxation Authority" Under Tax Treaties

The purpose of this Order is to formalize the authority of the Commissioner of Internal Revenue with respect to acting as the competent authority or taxation authority under tax treaties with foreign countries.

The authority conferred upon the Secretary of the Treasury in all tax treaties to act as the competent authority or taxation authority is hereby delegated to the Commissioner of Internal Revenue, with the right to redelegate such authority to any officer or employee of the Internal Revenue Service.

To the extent that any action heretofore taken by the Commissioner of Internal Revenue or his delegate consistent with the delegation set forth in the preceding paragraph may require ratification, such action is hereby affirmed and ratified.

George P. Shultz,
Secretary of the Treasury.

No. 226, September 1, 1973.—Creation of Office of Analysis and Special Studies of Natural Resources and Energy

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, there is hereby created in the Department of the Treasury an Office of Analysis and Special Studies of Natural Resources and Energy. This office will report directly to the Deputy Secretary and be headed by a Special Assistant to the Deputy Secretary. The office will perform ongoing analyses and special studies of the international economic implications of the United States' position in selected natural resources, including coal, oil, natural gas, copper, and other minerals of importance to the U.S. balance of payments. The office will also advise the Deputy Secretary on related tax policies including depletion allowances, accelerated amortization, investment credits, and production incentives, as well as tariffs and quotas, financial and investment policies, price controls, and loans and guarantees as they affect U.S. natural resource and energy needs. Its work will complement the ongoing work in the natural resource field in the Office of the Assistant Secretary for International Affairs, the Assistant Secretary for Tax Policy, and other areas in the Office of the Secretary.

The work of the office will include contact with other Government agencies concerned with resources and energy, on the one hand; and the various parts of the Treasury concerned with tax policy, trade policy, economic policy, international affairs, and monetary affairs, on the other hand.

The office will concern itself with the supply and demand needs for significant energy resources of the U.S. economy and make recommendations to the Deputy Secretary about the most appropriate policies which will produce a favorable U.S. supply-demand balance for energy and other selected natural resources.

For reference purposes this office will be known as the Office of Natural Resources and Energy.

William E. Simon,
Acting Secretary of the Treasury.

No. 165, Revised, Amendment 7, September 11, 1973.—Delegation Order Amended As It Relates to Decisions With Respect to Claims, Penalties and Forfeitures

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950 (3 CFR, 1949–1953 Comp. p. 1017) and pursuant to authorization provided by Treasury Department Order No. 190, Revision 9 (38 F.R. 17517), it is hereby ordered that subparagraph (h)(8) of paragraph 1 of Treasury Department Order No. 165, Revised, dated November 2, 1954 (T.D. 53654; 19 F.R. 7241), as amended, is further amended by deleting:

(8) Section 592, Tariff Act of 1930 (19 U.S.C. 1592), if the Commissioner finds that the decision is in accordance with an established policy of mitigation or remission which has been approved by the Secretary in a factually similar case;

and by inserting in lieu thereof the following:

(8) Section 592, Tariff Act of 1930, as amended (19 U.S.C. 1592);

Edward L. Morgan,
Assistant Secretary for Enforcement,
Tariff and Trade Affairs, and Operations.

No. 177–26, Revision 1, October 31, 1973.—Delegation of Authority To Make Certificates With Respect to Expenses for Unforeseen Emergencies of a Confidential Nature

1. PURPOSE. This Order prescribes the policies and procedures with respect to expenses of a confidential character; provides for the allocation of funds; delegates the authority to make the required certificate for expenditures for such expenses; and directs that the certificate be submitted to the Secretary of the Treasury for approval.
2. SCOPE. This Order applies to the subject expenses incurred by the various Bureaus and Offices in the Department of the Treasury.
3. GENERAL. The current Department of the Treasury fiscal year appropriation act, authorizing the expenditure of funds appropriated for unforeseen emergencies of a confidential character, provides that such funds be allocated and expended under the direction of the Secretary of the Treasury and accounted for solely on his certificate. Such certificate is deemed a sufficient voucher for the sum therein expressed to have been expended.
4. ALLOCATION OF FUNDS. Funds appropriated for unforeseen emergencies of a confidential character shall be allocated to the various Bureaus and Offices on a quarterly basis, and such other times as may be necessary, by the Assistant Secretary for Administration. Regular quarterly requests for allocations should be submitted to the Office of the Assistant Secretary for Administration at least two weeks prior to the quarter in which the funds are to be expended. Emergency requests for allocations may be submitted as the need arises.
5. DELEGATION OF AUTHORITY TO MAKE CERTIFICATE. By virtue of this Order, the heads of the various Bureaus and Offices which have been allocated funds are authorized to exercise the power and authority vested in the Secretary of the Treasury to make certificates with respect to expenses for unforeseen emergencies of a confidential character; provided that each such certificate made by these officials shall be approved by the Secretary of the Treasury.
6. SUBMISSION OF CERTIFICATE. Each certificate made under the delegation of authority contained in paragraph 5 above shall be submitted to the Assistant Secretary of the Treasury for Administration. He shall be responsible for reviewing the certificate and making recommendations to the Secretary of the Treasury. The official authorized to make the certificate shall provide such information as the Assistant Secretary of the Treasury for Administration may require for his review and recommendation to the Secretary of the Treasury.
7. CASH DISBURSEMENTS. When circumstances require the immediate disbursement of funds for purposes stated in paragraph 3 above, the official authorized to make the required certificate, or such person designated by

him, may authorize disbursement from an imprest fund. No less frequently than quarterly the required certificate covering the disbursements from an imprest fund shall be submitted to the Secretary of the Treasury. The certificate as approved by the Secretary shall constitute the support for the reimbursement to the fund and recording the obligation and expenditure of the subject expenses.

8. OTHER DISBURSEMENTS. All other disbursements for the purposes stated in paragraph 3 above shall be covered by the required certificate. Each such certificate shall cover disbursements for a period not to exceed one calendar quarter and shall be submitted for the approval of the Secretary of the Treasury no less frequently than quarterly. The obligation and expenditure for the subject expenses shall be recorded on the basis of the disbursement transaction.
9. EFFECTIVE DATE. The provision of this Order shall be effective as of this date.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 150-82, REVISION 1, NOVEMBER 16, 1973.—DELEGATION OF AUTHORITY TO PERFORM PRICE STABILIZATION FUNCTIONS

Pursuant to the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and the delegation of authority to me as Secretary of the Treasury by Cost of Living Council Order No. 37, including Order No. 37, Amendment 1, and any subsequent amendments to Order No. 37, unless otherwise expressly provided in such amendments, it is ordered that:

1. The authority to perform all functions delegated to me by Cost of Living Council Order No. 37, including Order No. 37, Amendment 1, and any subsequent amendments to Order No. 37, unless otherwise expressly provided in such amendments, is hereby redelegated to the Commissioner of Internal Revenue. The authority is to be exercised subject to the policy guidance and discretion of the Director of the Cost of Living Council.
2. The Commissioner may redelegate this authority to any official of the Internal Revenue Service.

This Order shall become effective upon issuance.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 228, JANUARY 8, 1974.—DELEGATION OF AUTHORITY TO PERFORM COMPLIANCE AND ENFORCEMENT FUNCTIONS ON BEHALF OF THE FEDERAL ENERGY OFFICE

1. Pursuant to the authority vested in me as Secretary of the Treasury and the authority delegated to me by Federal Energy Office Delegation Order No. 3 there is hereby redelegated to the Commissioner of Internal Revenue the authority to perform compliance and enforcement functions on behalf of the Federal Energy Office. This authority is to be exercised subject to the general policy guidance and direction of the Administrator of the Federal Energy Office.

2. The authority hereby delegated includes, but is not limited to, the following: The authority to:
   (a) Conduct investigations to determine compliance with the Federal Energy Office's regulations and orders issued pursuant to such regulations.
   (b) Notify persons and/or business entities of probable violations of the regulations and orders of FEO, issue remedial orders, monitor remedial activities and approve compliance actions with respect thereto.
   (c) Sign and enforce subpoenas for the attendance and testimony of witnesses and the production of relevant documents, including books and papers, and to administer oaths, all in accordance with Section 206 of the Economic Stabilization Act of 1970, as amended, with respect to functions delegated by this order and, subject to the concurrence of the General Counsel of FEO, seek judicial enforcement of such subpoenas.

(d) Collect civil penalties and compromise or settle cases involving civil penalties for violations of the regulations and orders of FEO. This authority is subject to review by the Administrator, FEO.

3. The Commissioner may redelegate to any official of the Internal Revenue Service any authority included in this order which may be necessary to carry out the functions delegated by this order.

4. This order is effective as of December 26, 1973.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 229, JANUARY 14, 1974.—FISCAL SERVICE REORGANIZATION

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, it is ordered that:

1. There is established in the Fiscal Service a Bureau of Government Financial Operations, to be headed by a Commissioner, who will report to the Fiscal Assistant Secretary.
2. All functions of the Bureau of Accounts, and all functions of the Office of the Treasurer of the United States except the functions performed by its Cash Division and those functions performed by its General Accounts Division and its Internal Audit Office which relate to the custody, issuance, and redemption of currency, are transferred to the Bureau of Government Financial Operations.
3. The Treasurer of the United States will report directly to the Under Secretary for Monetary Affairs.
4. All provisions of law and regulations dealing with the transferred functions on the effective date of this Order will continue in effect under the supervision of the Commissioner, Bureau of Government Financial Operations.
5. All positions, personnel, records, property, funds, and other resources which relate to the functions transferred, as determined by the Assistant Secretary for Administration, shall be transferred to the Bureau of Government Financial Operations.
6. The internal organization of the consolidated Bureau of Government Financial Operations will be established by the Fiscal Assistant Secretary.
7. This Order shall become effective on February 1, 1974.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 150–84, JANUARY 24, 1974.—PRICE STABILIZATION FUNCTIONS, DELEGATION OF AUTHORITY

Pursuant to the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and the delegation of authority to me as Secretary of the Treasury by Cost of Living Council Order No. 48, it is ordered that:

1. The authority to perform all functions delegated to me by Cost of Living Council Order No. 48 is hereby delegated to the Commissioner of Internal Revenue.
2. The Commissioner may redelegate this authority to any official of the Internal Revenue Service.

This order shall become effective upon issuance.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 229–1, MARCH 11, 1974.—FISCAL SERVICE REORGANIZATION

By virtue of the authority vested in me as Secretary of the Treasury, including particularly the authority conferred in Reorganization Plan No. 26 of 1950, as amended (31 U.S.C. 1001, note), it is ordered that:

1. The functions assigned to the Office of the Treasurer of the United States by paragraph 2 of Treasury Order No. 229, dated January 14, 1974, are transferred to the Bureau of Government Financial Operations. The latter bureau shall make periodic reports to the Treasurer of the United States showing currency held in custody, issued, retired, and in circulation.

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2. The securities functions that are performed in the Securities Division of the Bureau of Government Financial Operations are transferred to the Bureau of the Public Debt.

3. Any provisions of law and all regulations issued with respect to the functions transferred hereby, which are in effect on the effective date of this Order, shall continue in effect until amended or superseded.

4. As determined by the Assistant Secretary for Administration, the positions, personnel, records, property, funds, and other resources related to the functions transferred hereby are transferred with the functions.

5. This Order is effective as of the first day of the first pay period following the date of this Order.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 190-2, MARCH 22, 1974.—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 9), I hereby delegate to the Deputy Assistant Secretary for Tax Policy (Tax Legislation) authority to act on requests for changes in accounting for the investment credit in financial reports to Federal agencies, as required by section 101(c) of the Revenue Act of 1971 (P.L. 92-178). 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 requests for changes in accounting for the investment credit on which action should appropriately be taken by him.

FREDERIC W. HICKMAN,
Assistant Secretary for Tax Policy.

No. 165, REVISED, AMENDMENT 8, JUNE 14, 1974.—DELEGATION ORDER AMENDED AS IT RELATES TO WAIVERS OF THE NAVIGATION LAWS

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950 (3 CFR, 1949-1953 Comp. p. 1017) and pursuant to authorization provided by Treasury Department Order No. 190, Revision 9 (38 F.R. 17517), it is hereby ordered that Treasury Department Order No. 165, Revised, dated November 2, 1954 (T.D. 53654; 19 F.R. 7241), as amended, is further amended by adding a new subparagraph (k) to read as follows:

> (k) Any decision as to whether to waive compliance with the navigation laws pursuant to the Act of December 27, 1950, 64 Stat. 1120 (46 U.S.C. Chapter 1 Note), shall be made by the Secretary of the Treasury, except that the Commissioner of Customs shall waive compliance with such laws upon the request of the Secretary of Defense to the extent deemed necessary in the interest of national defense by the Secretary of Defense.

DAVID R. MACDONALD,
Assistant Secretary of the Treasury.

No. 232, JUNE 23, 1974.—ESTABLISHMENT OF THE OFFICE OF TRADE, ENERGY, AND FINANCIAL RESOURCES POLICY COORDINATION

By virtue of the authority vested in me as Secretary of the Treasury, including the authority vested in me by Reorganization Plan No. 26 of 1950, it is ordered as follows:

1. There is hereby established, within the Office of the Secretary, the Office of Trade, Energy, and Financial Resources Policy Coordination, under the supervision of an Assistant Secretary, consisting of (a) the Office of Trade and Raw Materials Policy, under the supervision of a Deputy Assistant Secretary, (b) the Office of Energy Policy, under the supervision of a Deputy Assistant Secretary, and (c) the Office of Financial Resources Policy Coordination, under the supervision of a Deputy Assistant Secretary.

2. The functions of the Office of Trade, Energy, and Financial Resources Policy Coordination are:
   (a) formulating and implementing Treasury positions on (1) U.S. trade and commercial policy, in general, (2) multilateral and bilateral trade negotiations, (3) strengthening of U.S. economic relationships with the USSR, Eastern Europe, China and such other countries and areas as may be designated by the Secretary, and (4) programs in relation to the Secretary's responsibilities for trade relations with Canada, and such other countries and areas as may be designated by the Secretary;
   (b) formulating and implementing Treasury positions on (1) questions relating to basic natural resources, including non-fuel minerals and agricultural commodities, and (2) oceans policy matters;
   (c) providing support to the Secretary in his role as Chairman of the Committee on Energy, by coordinating energy policy and implementation within the Administration and otherwise;
   (d) being responsible for relations with Middle East oil producing countries, including providing support for Joint Commissions with such countries and coordinating Joint Commissions with other countries as the Secretary may designate;
   (e) coordinating Treasury policy with respect to U.S. capital markets, the formation of capital and such related matters as the role of commercial banks in the securities business;
   (f) developing and recommending a range of policy positions that the Secretary should initiate with respect to the present and future financial problems and capital needs of industry;
   (g) coordinating Treasury positions on legislation affecting U.S. capital markets and serving as a Treasury focal point for business, Congress and the public in this area.
3. The functions of the Assistant Secretary for Trade, Energy, and Financial Resources Policy Coordination are to manage the Office, serve as the principal advisor and provide staff assistance to the Secretary with respect to the foregoing and such other matters as the Secretary may designate.
4. There are hereby transferred to the Office of Trade, Energy, and Financial Resources Policy Coordination all programs and associated personnel, positions, records, personal property, and Exchange Stabilization and "Salaries and Expenses" Funds heretofore assigned (a) to the Deputy Assistant Secretatry for Trade, Office of the Assistant Secretary (International Affairs), except those associated with trade financing (export promotions); (b) elsewhere within the Office of the Assistant Secretary (International Affairs) for the performance of the functions set forth above; (c) to the Office of Energy Advisor as described in Treasury Order No. 225; and (d) to the Office of Natural Resources and Energy as described in Treasury Order No. 226.
5. The Assistant Secretary for Trade, Energy, and Financial Resources Policy Coordination is authorized to reassign programs, functions and associated positions and resources among the three subordinate offices established above as he deems necessary, consistent with the policies and procedures governing the Exchange Stabilization Fund.
6. Treasury Orders No. 225 (May 11, 1973) and No. 226 (September 1, 1973) are hereby cancelled.

WILLIAM E. SIMON,
Secretary of the Treasury.

No. 233, JUNE 28, 1974.—ESTABLISHMENT OF THE OFFICE OF ECONOMIC STABILIZATION AND DELEGATION OF AUTHORITY TO SUCH OFFICE

By virtue of the authority vested in me as Secretary of the Treasury, including that in Reorganization Plan No. 26 of 1950, and that delegated to me by Executive Order 11788, June 18, 1974 (39 F.R. 22113), it is hereby ordered as follows:

1. There is hereby established, within the Office of the Secretary, an Office of Economic Stabilization headed by a Director and reporting to the Assistant

Secretary for Administration. It is the function of such Office to provide for the orderly termination of the Economic Stabilization Program.

2. All the powers and duties delegated to the Secretary by Executive Order 11788, June 18, 1974 (39 F.R. 22113), except for (a) the authority contained in subsections 5(a) (2) and (3) of that Order, the power to appoint one officer to an Executive Schedule position and the power to place not more than three positions in GS–16, 17 and 18; or (b) as otherwise provided herein, are delegated to the Director, Office of Economic Stabilization; provided, however, that the authority delegated herein shall be exercised subject to the supervision and policy direction of the Assistant Secretary for Administration.

3. Pending the issuance of delegations of authority by appropriate officials of this Department under existing delegations from the Secretary of the Treasury, and with the exception of the authority to procure property and services for the Office of Economic Stabilization, which is hereby reserved to the Assistant Secretary for Administration, the Director, Office of Economic Stabilization is hereby authorized to:

(a) appoint cashiers and certify financial statements;

(b) subject to the limitations contained in sections 5 and 6 of Treasury Personnel Manual Chapter 250, to:

(*i*) administer and conduct personnel management and training activities;

(*ii*) approve and effectuate all position classification actions which involve positions up to and including GS–15; and

(*iii*) take all necessary personnel actions, including appointments, position changes, suspensions, and separations.

(c) perform all other operational functions normally performed by an office or bureau head.

4. All existing regulations, rules, instructions and forms heretofore issued or adopted by the Cost of Living Council and others for the administration of the Economic Stabilization Program pursuant to the Economic Stabilization Act of 1970, as amended, are hereby continued in effect as regulations, rules, instructions and forms of the Office of Economic Stabilization, Department of the Treasury, until superseded or revised.

5. Regulations for the purpose of carrying out the powers and duties delegated to the Director, Office of Economic Stabilization including the revision or supersession of regulations, rules, instructions and forms referred to in section 4 of this order, may be issued by the Director, Office of Economic Stabilization.

6. The authorities delegated by this order may be further redelegated, except that the authority to redelegate to officials not within the Office of Economic Stabilization is hereby reserved and delegated to the Assistant Secretary for Administration.

7. This order is effective July 1, 1974 and shall continue through December 31, 1974.

William E. Simon,
Secretary of the Treasury.

STATISTICAL APPENDIX

TABLES

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