The original documents are located in Box B1, folder “American Bankers Association (4)” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

To Chairman Burns

From George L. Spencer, Jr.

Date December 6, 1971

Subject: Luncheon and conference with Government Relations Council of the American Bankers Association--Tuesday, December 7.

As you know, the Government Relations Council of the American Bankers Association will visit the Board's offices on Tuesday, December 7, for luncheon in the Staff Dining Room at 1:00 p.m. to be followed by a conference with available Members of the Board and certain staff.

Attached is a list of the members of the Government Relations Council who are expected to be in Washington this week. The American Bankers Association is of the impression that some of those persons listed may not find it possible to be in the group that visits the Board on Tuesday, and they probably will not have final information on that point until sometime that morning.

Those persons who plan to attend the luncheon and conference are requested to gather in the Board Room shortly before 1:00 p.m. to greet the visitors prior to proceeding to the Staff Dining Room.

Attachment

Representatives of the

Government Relations Council of the

American Bankers Association

to attend luncheon/conference on

Tuesday, December 7, 1971

Chairman

Mr. B. Finley Vinson
Chairman of the Board
First National Bank in Little Rock
($150 mil.)
Little Rock, Arkansas

Vice Chairman

Mr. George A. LeMaistre
Chairman and Chief Executive Officer
The City National Bank of Tuscaloosa
($63 mil.)
Tuscaloosa, Alabama

Members

Mr. Aubrey E. Austin, Jr., President
Santa Monica Bank ($99 mil.)
Santa Monica, California

Mr. John J. Balles, Senior Vice President
Mellon National Bank & Trust Co.
($6 bil.)
Pittsburgh, Pennsylvania

Mr. James S. Barker, Vice Chairman
Bank of New Hampshire, N.A. ($108 mil.)
Manchester, New Hampshire

Mr. Norman Barker, Jr., President
United California Bank ($6 bil.)
Los Angeles, California

Members (cont'd)

Mr. Joseph W. Barr, President
American Security and Trust Co.
($807 mil.)
Washington, D. C.

Mr. Frank Bauder
Chairman and Chief Executive Officer
Central National Bank ($612 mil.)
Chicago, Illinois

Mr. Raymond W. Bauer, President
Union County Trust Company ($246 mil.)
Elizabeth, New Jersey

Mr. G. Clarke Bean, Chairman
The Arizona Bank ($538 mil.)
Phoenix, Arizona

Mr. Kenneth C. Bonnell
President
The First National Bank ($40 mil.)
Roswell, New Mexico

Mr. H. Phelps Brooks, Jr., President
The Peoples National Bank ($8 mil.)
Chester, South Carolina

Mr. Arthur F. Brown, Jr., President
The Carroll County Trust Co. ($15 mil.)
Conway, New Hampshire

Mr. James E. Brown
Senior Vice President
Mercantile Trust Company ($1 bil.)
St. Louis, Missouri

Mr. Richard P. Brown
Senior Vice President and Executive
Trust Officer
The First National Bank ($677 mil.)
Denver, Colorado

Mr. A. Dwight Button
Chairman of the Board
The Fourth National Bank & Trust Co.
($304 mil.)
Wichita, Kansas

Mr. Charles J. Cassidy
Chairman of the Board and President
First State Bank and Trust Company
($33 mil.)
Bogalusa, Louisiana

Mr. Robert L. Cave, President
First City Bank and Trust Company
($39 mil.)
Hopkinsville, Kentucky

Mr. Ezra T. Clark, President
Davis County Bank ($9 mil.)
Farmington, Utah

Mr. Robert G. Clawson, President
The Bank of Hartsville ($18 mil.)
Hartsville, South Carolina

Mr. W. T. Cothran, Chairman of the Board
Birmingham Trust National Bank
($417 mil.)
Birmingham, Alabama

Mr. John J. Cummings, Jr., President
Industrial National Bank of R.I.
($1 mil.)
Providence, Rhode Island

Mr. Russell M. Daane
Vice Chairman of the Board
Fort Wayne National Bank ($190 mil.)
Fort Wayne, Indiana

Mr. T. Crawley Davis, Jr.
Senior Vice President
Bank of Delaware ($330 mil.)
Wilmington, Delaware

Mr. William G. Deathrage, President
Planters Bank & Trust Company
($56 mil.)
Hopkinsville, Kentucky

Mr. Robert B. Doyle
Senior Vice President
Hartford National Bank & Trust Co.
($1 bil.)
Hartford, Connecticut

Mr. J. Rex Duwe, President
The Farmers State Bank ($3 mil.)
Lucas, Kansas

Mr. Joseph F. Fahey, Jr.
Senior Vice President
The State National Bank of Connecticut
($405 mil.)
Bridgeport, Connecticut

Mr. Robert W. Feagles
Senior Vice President
First National City Bank ($27 bil.)
New York, New York

Mr. Joseph B. Foster
President
Ann Arbor Bank ($162 mil.)
Ann Arbor, Michigan

Mr. William W. Foulkes, Jr.
Senior Vice President
The First Jersey National Bank
($507 mil.)
Jersey City, New Jersey

Mr. Robert W. Franz, President
First State Bank of Oregon ($98 mil.)
Milwaukie, Oregon

Mr. Paul W. Gandrud, President
Swift County Bank ($13 mil.)
Benson, Minnesota

Mr. Richard M. Gillett, President
Old Kent Bank and Trust Company
($691 mil.)
Grand Rapids, Michigan

Mr. Henry Gramann, Jr., President
Adams State Bank ($2 mil.)
Adams, Nebraska

Mr. Hubert H. Hauck
Chairman of the Board
Maine National Bank ($223 mil.)
Portland, Maine

Mr. Lester W. Herzog, Jr., President
National Commercial Bank & Trust Co.
($1 bil.)
Albany, New York

Mr. A. Lawrence Higgins
Executive Vice President
The Continental Bank & Trust Co.
($138 mil.)
Salt Lake City, Utah

Mr. Floyd A. Hines
Chairman of the Board
Fayette Bank and Trust Company ($24 mil.)
Connersville, Indiana

Mr. Lewis R. Holding, President
First-Citizens Bank & Trust Co.
($788 mil.)
Raleigh, North Carolina

Mr. Richard J. Holland, President
The Farmers Bank ($12 mil.)
Windsor, Virginia

Mr. Walter F. Johnson, President
First National Bank ($81 mil.)
Abilene, Texas

Mr. S. R. "Buddy" Jones, Jr.
President and Chief Executive Officer
First Pasadena State Bank ($88 mil.)
Pasadena, Texas

Mr. William H. Kennedy, Jr. President
National Bank of Commerce ($61 mil.)
Pine Bluff, Arkansas

Mr. Donald E. Lasater, Chairman
Mercantile Trust Company ($1 bil.)
St. Louis, Missouri

Mr. John P. Laware
Senior Vice President
Chemical Bank ($12 bil.)
New York, New York

Mr. Richard Lothian, President
Somerset Trust Company ($92 mil.)
Somerville, New Jersey

Mr. Richard G. Macgill, President
The New Jersey National Bank ($608 mil.)
Trenton, New Jersey

Mr. Adrian O. McLellan, President
First National Bank ($91 mil.)
Great Falls, Montana

Mr. William F. Melville, Jr.
Senior Vice President
Maryland National Bank ($1 bil.)
Baltimore, Maryland

Mr. Wayne F. Messenger, President
First State Bank ($12 mil.)
Cody, Wyoming

Mr. Horace G. Moeller, President
Colonial National Bank ($172 mil.)
Haddonfield, New Jersey

Mr. Stephen G. Moore, Vice President
The Merchants National Bank ($49 mil.)
Burlington, Vermont

Mr. Hermann Moyse, Jr.
Executive Vice President
City National Bank of Baton Rouge
($127 mil.)
Baton Rouge, Louisiana

Mr. Robert B. Palmer
Senior Vice President
Philadelphia National Bank ($3 bil.)
Philadelphia, Pennsylvania

Mr. C. L. Priddy, President
The National Bank of McAlester
($34 mil.)
McAlester, Oklahoma

Mr. K. A. Randall
President and Chief Executive Officer
United Virginia Bankshares, Inc.
($1 bil.)
Richmond, Virginia

Mr. J. Fred Risk, Chairman
The Indiana National Bank ($1 bil.)
Indianapolis, Indiana

Mr. Leo W. Seal, Jr., President
Hancock Bank ($115 mil.)
Gulfport, Mississippi

Mr. C. Gale Sellens, President
Lakeside National Bank ($35 mil.)
Wheat Ridge, Colorado

Mr. Al K. Simpson, President
Merchants National Bank & Trust Co.
($59 mil.)
Fargo, North Dakota

Mr. Joe B. Sisler, President
The Clovis National Bank ($33 mil.)
Clovis, New Mexico

Mr. Virgil E. Solso, President
The Oregon Bank ($159 mil.)
Portland, Oregon

Mr. Samuel B. Stewart
Senior Vice Chairman of the Board
Bank of America, N.T. & S.A. ($32 bil.)
San Francisco, California

Mr. Leon Stone, President
The Austin National Bank ($267 mil.)
Austin, Texas

Mr. Arnold H. Sturtevant
President
Livermore Falls Trust Company
($18 mil.)
Livermore Falls, Maine

Mr. Richard H. Swain, President
The First National Bank ($29 mil.)
Cape Girardeau, Missouri

Mr. Clifton D. Terry, President
Bank of Hawaii ($815 mil.)
Honolulu, Hawaii

Mr. James A. Webb, Jr.
Executive Vice President
Third National Bank in Nashville
($634 mil.)
Nashville, Tennessee

Mr. Williard I. Webb, III, President
The Ohio Citizens Trust Company
($235 mil.)
Toledo, Ohio

Mr. J. C. Welman, Jr.
Senior Vice President
First National Bank of Minneapolis
($1 bil.)
Minneapolis, Minnesota

Mr. John H. Wheeler, President
Mechanics & Farmers Bank ($26 mil.)
Durham, North Carolina

Mr. E. Paul Williams, President
Second National Bank ($59 mil.)
Ashland, Kentucky

Mr. Robert D. Williams, President
First National Bank of Arizona ($ 1 bil.
Phoenix, Arizona

Mr. Charles E. Woodruff
Executive Vice President
Manufacturers Hanover Trust Company
($14 bil.)
New York, New York

Mr. Marchant D. Wornom
Executive Vice President - Treasurer
Virginia Bankers Association
Richmond, Virginia

Mr. Sam I. Yarnell
Chairman of the Board
American National Bank and Trust Co.
($291 mil.)
Chattanooga, Tennessee

NOTE: Figures in parentheses represent total resources

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

FEDERAL ADMINISTRATIVE ADVISER
WILLIAM T. HEFFELFINGER, CONSULTANT
202/467-4200

January 5, 1972

Mrs. Catherine Mallardi
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mrs. Mallardi:

There is enclosed for Chairman Burns' information a copy of the agenda for the Government Borrowing Committee's meeting on January 25-26, 1972. We have scheduled Dr. Burns to meet with the Committee at 4:00 p.m. If he prefers some other time the Committee can arrange its schedule to meet his desire.

Sincerely,

W. T. Heffelfinger

W. T. Heffelfinger

WTH:TB

Enclosure

AGENDA
GOVERNMENT BORROWING COMMITTEE
The American Bankers Association
January 25-26, 1972

Tuesday, January 25, 1972

9:00 a.m.	Committee meets in Room 4426 of the Treasury Department for briefing on Federal Financing Bank 1/
10:00 a.m.	Committee to review slides in Room 2334 of the Treasury 1/
11:00 a.m.	Committee to meet with Under Secretary for Monetary Affairs, Mr. Paul Volcker, in Room 4426 of the Treasury Department for backgrounding 1/
12:30 p.m.	Refreshments
1:00 p.m.	Luncheon Cabinet and Pan American Rooms, Mayflower Hotel
2:30 p.m.	Committee to reconvene in Board Room of The American Bankers Association, 1120 Connecticut Avenue, N. W. (7th floor) 2/ Chairman Burns (Federal Reserve Board) will meet with the Committee at 4:00 p.m.
6:30 p.m.	Cocktails
7:00 p.m.	Dinner Cabinet and Pan American Rooms, Mayflower Hotel

Wednesday, January 26, 1972

9:15 a.m.	Committee to reconvene in Board Room of The American Bankers Association, 1120 Connecticut Avenue, N. W. 2/
10:00 a.m.	Committee to report its recommendations to Secretary Connally and the Treasury Financing Group in Room 4426 of the Treasury Department 1/

1/ Treasury will use the regular projection room on the second floor at southwest corner of building (corner facing the Mall and the White House). Briefing on Federal Financing Bank and Conference with Under Secretary for Monetary Affairs and report to the Secretary of the Treasury will be held in the 4th floor Conference Room on west side of building near the center elevators opposite the White House.

2/ This location is on Connecticut Avenue opposite the Mayflower Hotel.

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036

PRESIDENT
ALLEN P. STULTS
AMERICAN NATIONAL BANK AND
TRUST COMPANY
CHICAGO, ILLINOIS 60690

March 6, 1972

The Honorable William Proxmire
Chairman, Joint Economic Committee
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

In your letter of February 4, 1972, you invited The American Bankers Association to submit written comments on the economic issues which concern the nation and our organization. This letter conveys the official views of our Association on this important matter.

The American Bankers Association has applauded President Nixon for taking bold action since August 15, 1971, to stem persisting inflationary pressures domestically and to reverse the growing deficit in our international balance of payments. At the same time, the Association has also stressed the need to complement controls with appropriate fiscal and monetary policy measures, in order to permit an early phase-out of the temporarily imposed wage-price constraints.

Members of the banking and financial community recognize that fiscal and monetary policy measures must be responsive to the needs of a growing economy. At the same time, however, it is important to note that a fine line exists between appropriate stimulation of real economic growth and the rekindling of inflationary expectations. Clearly, the anticipated 38.8 billion dollar deficit for this fiscal year -- which would involve an estimated 8 billion dollar deficit even if the economy were operating at full employment -- could tip the scales in the direction of renewed inflationary pressures and expectations. This, in turn, may jeopardize the possibility of achieving non-inflationary growth domestically and an improved trade position internationally, as envisioned under the President's New Economic Program.

In the area of monetary policy, we note that the Federal Reserve has again moved to ease monetary conditions substantially, and short-term interest rates have fallen dramatically. This effort to make credit conditions much easier as the economy moves upward has certain disturbing implications. The weakness of the dollar in foreign exchange markets, and continued uneasiness in domestic money markets, reflect these concerns and bear witness to the persistent uncertainty which exists about inflation both at home and abroad.

The failure to achieve a steadier pattern in monetary policy also has important implications for both financial conditions in the short run and the

achievement of sustained economic growth in the long run. To be sure, the need to finance a substantially enlarged federal deficit, coupled with other credit demands which can be expected to develop in 1972, only compounds the difficulties associated with achieving orderly growth in money and credit. A less expansionary fiscal policy than currently envisioned would moderate prospective upward pressures on interest rates and be more conducive to an orderly growth in monetary aggregates. This, in turn, would alleviate the dangers of seriously disruptive changes in the total flow and allocation of credit that would accompany the development of excessive upward pressures on rates of interest.

Improved productivity represents another important ingredient for achieving non-inflationary growth in our economy. The Association has long supported the modernization of plant facilities and work rules, and the elimination of numerous rigidities in the economy, as steps toward increasing the growth of productivity. Additional attention should be focused on the development of appropriate programs and policies in this area.

Finally, the Association wishes to express the uneasiness of the financial community concerning the implementation of certain aspects of the Phase II wage-price program. The difficulties experienced by the Wage Board in holding wage increases to a level consistent with the Price Commission's goals obviously contribute to inequities, and may result in a breakdown of public support for the program before it has achieved its objectives.

In summary, we strongly recommend that the Administration place greater emphasis on programs designed to garner the long-term employment benefits of non-inflationary economic policies. To achieve this, we urge both the Administration and the Congress to hold the growth of Federal expenditures below present budget levels during the critical months that lie ahead. This would permit the monetary authorities to adopt a steadier approach to implementing monetary policy. In addition, we suggest that the Congress and the Administration continue to emphasize the importance of productivity as a basic determinant of compensation levels. Finally, we urge the Wage Board and the Price Commission to work together more closely in the future to ensure the success of the President's efforts to curtail inflationary pressures and expectations in the economy. Hopefully, taken together these measures will enable the Administration, at an early date, to remove the restraints temporarily imposed on wage and price decision-making in the economy.

Sincerely,

Allen P. Stults

Allen P. Stults
President

cc - Hamilton D. Gewehr, Administrative
Clerk (30 copies)

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036

PRESIDENT
ALLEN P. STULTS
AMERICAN NATIONAL BANK AND
TRUST COMPANY
CHICAGO, ILLINOIS 60690

March 9, 1972

The Honorable Arthur F. Burns
Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

For many years The American Bankers Association, by policy, has vigorously supported the independence of the Federal Reserve System within the Government as a prerequisite to effective monetary policy.

The Government Relations Council of our Association during a recent meeting discussed the Congressional and newspaper comment on a proposal by the Chairman of the House Committee on Banking and Currency to subject the Federal Reserve Board and the Federal Reserve Banks to audit by the Comptroller General of the United States.

They were in complete disagreement with that proposal and the purpose of this letter is to reiterate emphatically that The American Bankers Association continues its position in support of the independence of the Federal Reserve System, and will oppose any action which would subject the Federal Reserve Board and the Federal Reserve Banks to audit by the Comptroller General of the United States, as we believe this would be a step in weakening such independence.

Sincerely,

Allen P. Stults

Allen P. Stults

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

March 9, 1972

To: Chairman Burns
From: Charles Molony

Attached are:

(1) A memorandum from Messrs. Holland and Molony regarding telephoned expression of intent by Allen P. Stults, President of the American Bankers Association, to amplify in his remarks to the Mexican Bankers Association, March 11, the comments on monetary policy given in a letter by Mr. Stults for the ABA to Senator Proxmire, March 6.

(2) Text copy of the March 6 letter by Mr. Stults to Senator Proxmire.

(3) A New York Journal of Commerce story, March 8, quoting the March Economic Letter of the First National City Bank under headline: "Dollar's Weakness Not Due to Fed Money Policy."

(4) Text of the relevant portion of the First National City Bank letter noted above.

(5) Complete copy of the First National City Bank letter with the portions previously noted appearing at pages 3, 4, and 5.

March 9, 1962

TO: Chairman Burns

FROM: Robert C. Holland and Charles Molony

Mr. Allen P. Stults, President of the American Bankers Association, has indicated that he intends to include in his remarks to the Mexican Bankers Association on March 11, 1972 an amplification along the following lines of the judgments concerning U. S. monetary policy which were contained in The American Bankers Association letter of March 6, 1972 to Senator Proxmire, Chairman of the Joint Economic Committee of the Congress:

Some press reports on the above letter gave an unfortunate misemphasis to the weight of our concerns. While we do have some concern about the abundant volume of credit and liquidity being made available to the American economy, by far our greatest concern attaches to fiscal policy and the possible consequences of the very large deficits to which our economic system is being subjected.

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036

PRESIDENT
ALLEN P. STULTS
AMERICAN NATIONAL BANK AND
TRUST COMPANY
CHICAGO, ILLINOIS 60690

March 6, 1972

The Honorable William Proxmire
Chairman, Joint Economic Committee
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

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The American Bankers Association has applauded President Nixon for taking bold action since August 15, 1971, to stem persisting inflationary pressures domestically and to reverse the growing deficit in our international balance of payments. At the same time, the Association has also stressed the need to complement controls with appropriate fiscal and monetary policy measures, in order to permit an early phase-out of the temporarily imposed wage-price constraints.

Members of the banking and financial community recognize that fiscal and monetary policy measures must be responsive to the needs of a growing economy. At the same time, however, it is important to note that a fine line exists between appropriate stimulation of real economic growth and the rekindling of inflationary expectations. Clearly, the anticipated 38.8 billion dollar deficit for this fiscal year -- which would involve an estimated 8 billion dollar deficit even if the economy were operating at full employment -- could tip the scales in the direction of renewed inflationary pressures and expectations. This, in turn, may jeopardize the possibility of achieving non-inflationary growth domestically and an improved trade position internationally, as envisioned under the President's New Economic Program.

In the area of monetary policy, we note that the Federal Reserve has again moved to ease monetary conditions substantially, and short-term interest rates have fallen dramatically. This effort to make credit conditions much easier as the economy moves upward has certain disturbing implications. The weakness of the dollar in foreign exchange markets, and continued uneasiness in domestic money markets, reflect these concerns and bear witness to the persistent uncertainty which exists about inflation both at home and abroad.

The failure to achieve a steadier pattern in monetary policy also has important implications for both financial conditions in the short run and the

achievement of sustained economic growth in the long run. To be sure, the need to finance a substantially enlarged federal deficit, coupled with other credit demands which can be expected to develop in 1972, only compounds the difficulties associated with achieving orderly growth in money and credit. A less expansionary fiscal policy than currently envisioned would moderate prospective upward pressures on interest rates and be more conducive to an orderly growth in monetary aggregates. This, in turn, would alleviate the dangers of seriously disruptive changes in the total flow and allocation of credit that would accompany the development of excessive upward pressures on rates of interest.

Improved productivity represents another important ingredient for achieving non-inflationary growth in our economy. The Association has long supported the modernization of plant facilities and work rules, and the elimination of numerous rigidities in the economy, as steps toward increasing the growth of productivity. Additional attention should be focused on the development of appropriate programs and policies in this area.

Finally, the Association wishes to express the uneasiness of the financial community concerning the implementation of certain aspects of the Phase II wage-price program. The difficulties experienced by the Wage Board in holding wage increases to a level consistent with the Price Commission's goals obviously contribute to inequities, and may result in a breakdown of public support for the program before it has achieved its objectives.

In summary, we strongly recommend that the Administration place greater emphasis on programs designed to garner the long-term employment benefits of non-inflationary economic policies. To achieve this, we urge both the Administration and the Congress to hold the growth of Federal expenditures below present budget levels during the critical months that lie ahead. This would permit the monetary authorities to adopt a steadier approach to implementing monetary policy. In addition, we suggest that the Congress and the Administration continue to emphasize the importance of productivity as a basic determinant of compensation levels. Finally, we urge the Wage Board and the Price Commission to work together more closely in the future to ensure the success of the President's efforts to curtail inflationary pressures and expectations in the economy. Hopefully, taken together these measures will enable the Administration, at an early date, to remove the restraints temporarily imposed on wage and price decision-making in the economy.

Sincerely,

Allen P. Stults

Allen P. Stults
President

cc - Hamilton D. Gewehr, Administrative
Clerk (30 copies)

Citibank Says–

MAR 8 - 1972

Dollar's Weakness Not Due to Fed Money Policy

By PATRICK CONNOR
Journal of Commerce Staff

Federal Reserve monetary policy and low U.S. interest rates are not the important reason for the weakness of the dollar in foreign exchange markets, First National City Bank says in its latest monthly letter.

"The main reason the dollars haven't come home . . . is the exchange risk of holding dollars rather than other currencies in circumstances where the dollar is under one-sided selling pressure against stronger European currencies in the spot exchange market and is trading at a large discount in the forward market."

The Citibank letter continued that "the dollar's attractiveness as a medium for investment may have been materially affected by last year's events. A key currency once thought to be immune to devaluation and then devalued has changed its status. . . . Foreign criticism of Fed policy seems largely beside the point."

Criticism Voiced

In recent days both high-ranking French and West German officials have voiced criticism of U.S. monetary policy for lowering short-term interest rates in this country, thus keeping a huge overload of dollars in Europe, where interest rates are higher.)

But Citibank maintained that "the Fed cannot be blamed for the steep decline of interest rates." For one thing, inflationary expectations have been dampened somewhat, and this has caused interest rates to drop, the bank argued. And, an economy with as much slack as the U.S. can afford a moderately expansionary monetary policy, the letter noted.

Short-term interest rates should begin to move up in the fairly near future anyway, the letter said, since "the rate of inflation implied by current short-term interest rates is far too low."

For example the recent 90-day commercial paper rate of about 3.8 per cent carries an implied annual inflation premium of 0.8 per cent to 1 per cent, the letter notes, while the rate on long-term double-A rated utility bonds suggests an inflation premium of 3.5 per cent to 4 per cent.

Prospects For Growth

The bank continued that the prospects for 5 to 6 per cent real economic growth this year were still good but "consumer spending, as the largest component of gross national product, still bears watching."

The bank also pointed out that the robust 12 per cent rise in after-tax corporate profits in 1971 was very heavily influenced by the tripling of profits at General Motors. "Without GM the 1970-71 increase in corporate earnings would have been reduced from 12 per cent to 8 per cent. Other revivals in earnings were tied to the auto boom or the jump in housing starts, Citibank commented.

The bank also endorsed the idea of a public or private agency to lend money to students to cover college tuition and living costs. The student would pay back the loan over a period of years after he got a job. That makes more sense than "free" tuition for all students, no matter what their economic status, the bank argued.

See next page for text of pertinent part of 1st National City Bank letter

From

MONTHLY ECONOMIC LETTER

FIRST NATIONAL CITY BANK

FIRST NATIONAL CITY BANK NEW YORK

March 1972

Pp 3.4.5

MONEY: International

The failure of speculative funds to flow from other currencies back into the dollar is blamed on the low level of short-term interest rates in the United States. At the same time, the Federal Reserve has come in for a good deal of criticism in European financial circles for allowing short-term rates to sink so low. The Fed is berated for its alleged failure to follow the restrictive sort of monetary policy critics deem appropriate for a country whose currency has just been devalued and which seeks to improve its trade balance and strengthen its currency on the exchange markets. The Fed's critics apparently have in mind Britain's experience following the pound's devaluation in November 1967, when the Bank of England's failure to adopt a restrictive monetary policy until late in 1968 undoubtedly delayed the recovery in Britain's balance of payments.

Although higher U.S. interest rates and lower rates in Europe would doubtless create some incentive for funds to flow back into dollar assets, interest rates are not the main reason the dollars haven't come home. The roadblock now is the exchange risk of holding dollars rather than other currencies, in circumstances where the dollar is under one-sided selling pressure against stronger European currencies in the spot-exchange market and is trading at a large discount in the forward market. Such a one-sided exchange risk represents a substantial reduction in the effective yield on dollar assets. If, for example, a dollar investment is hedged by selling dollars in the forward exchange market, the large forward discount of the dollar reduces the effective yield; and even if the exchange risk is not hedged, the perceived risk reduces the yield that the investor can reasonably expect.

How long these one-sided expectations about the dollar will persist is by no means clear. Much depends on how soon the current account of the U.S. balance of payments begins to show signs of improvement.

Yet even when the U.S. deficit narrows and the dollar ceases to be under one-sided selling pressure on the exchanges, the return of speculative funds to the dollar may be disappointing. For the dollar's attractiveness as a medium for investment may have been materially affected by last year's events. A key currency once thought to be immune to devaluation and then devalued has changed its status. Like other currencies, the dollar is now perceived in the markets to be subject to long-term exchange risks.

Foreign criticism of Fed policy seems largely beside the point. The money supply barely grew at all from August to December 1971. Thus the Fed cannot be blamed for the steep decline of interest rates, which began in August. Downward revision of price expectations and factors affecting the real rate of interest, rather than "liquidity effects," were evidently responsible. Chairman Arthur F. Burns of the Federal Reserve Board put the problem in perspective when he suggested that critics should also ask "if some foreign interest rates are too high."

Since December, the Fed's resumption of a moderately easy policy may have played some part in the further decline of short-term rates. But the central bank has had little real choice—a restrictive policy would have threatened the continued recovery of the U.S. economy. Moreover, the view that a moderately expansionary monetary policy is inconsistent with the success of the dollar's devaluation overlooks the large amount of slack in the U.S. economy and the damping of price inflation. Britain's experience after the 1967 devaluation is hardly relevant; when the pound was devalued, the British economy was at full employment.

Advance Press Copy—Release
Wednesday A.M., March 8, 1972

MONTHLY ECONOMIC LETTER

FIRST NATIONAL CITY BANK

March 1972

General business conditions: still waiting for the spring

Some early data raise doubts, but the economy is headed the right way. And unless forecasts of 5-6% real growth are wide of the mark, breakthroughs will occur—particularly in retail sales.

The economic policymakers of the Nixon Administration are caught in a painful squeeze. The public, after years of exposure to the confident diagnoses of economists and politicians, has grown less tolerant of delays in the achievement of high employment and the elimination of inflation. But the recovery from the recession of 1969-70, like the contraction itself, has been protracted.

President Nixon's spectacular trip to China provided temporary relief for the policymakers' discomfiture by diverting attention from the domestic economy. But only an acceleration in the rate of economic growth and a further slowdown in the rate of inflation can effect a permanent cure. It is not enough that the economy is clearly headed in the right direction. What matters is the speed of its forward progress.

On that issue, the Administration continues to draw more solace from private forecasts and leading indicators of future economic activity than from data on the actual performance of the economy. Although some forecasters have scaled their projections down, the consensus among private and government analysts alike continues to point to a 5-6% gain in real output—the largest since 1966—accompanied by a further slowdown in price inflation. And the big upward jump in new orders for durable goods—together with planned increases in capital spending—lends support to this view.

Developments in the opening weeks of this year neither repudiate nor clearly validate the prevailing optimism. Retail sales, industrial production, housing starts and employment rose in January, after allowance for normal seasonal fluctuations. And business inventories rose in December—the latest month for which data are available—by the largest amount since

Summary ⟶

MONTHLY ECONOMIC LETTER

Summary

mid-1970. But the gains were, on the whole, not large enough to translate into a 5-6% annual rate of growth in real output. Similarly, while the January rises in the price indices were below pre-freeze rates—and lower than many observers expected—they, nonetheless, broke through the government's 2½% guideline.

These early reports don't materially lower the odds in favor of the forecasts of strong growth and less inflation. The favorable signs for the future outweigh the preliminary and fragmentary information on the economy's performance in the year's opening weeks. But it is safe to say that business activity will have to become more brisk and inflation less exuberant before policymakers can rest easy.

A new retail sales mix

Analysts will be focusing their attention on those segments of the economy that must show the greatest improvement over 1971 if a 6% growth rate is to be attained: inventory accumulation, the trade balance, and plant-and-equipment spending. But consumer spending, as the largest component of the gross national product, still bears watching. It will have to rise at close to its 1971 pace if the economy is to expand this year as expected.

The 11% increase in retail sales between the last quarter of 1970 and the last quarter of 1971 exceeded comparable gains in the first year of recovery from the three previous recessions. But the rate of price inflation was also greater: If the effects of price increases are eliminated, the gain in this recovery is somewhat smaller than that following the recession of 1957-58 but greater than in the recovery from the 1960-61 recession.

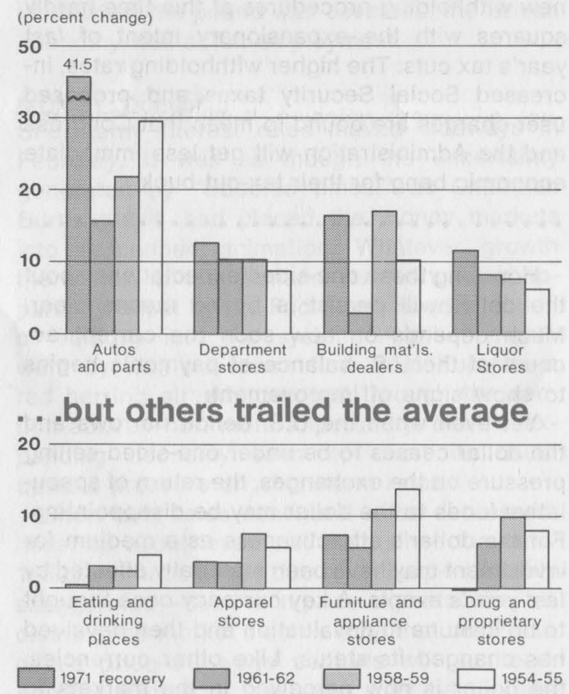
Retail sales gains were not evenly spread. As the chart indicates, the automotive group enjoyed extraordinary growth compared with the first year of earlier recoveries. The rebound from the late-1970 strike at General Motors and the temporary fillip associated with the price-and-wage freeze gave added impetus to the push associated with economic recovery. And the tempo of business at department stores and at lumber and building material stores was also strong compared with earlier recoveries.

Since auto sales can hardly be expected to grow by the same percentage in 1972, other areas will have to show stronger gains than they did last year if total retail sales are to expand at last year's rate. This focuses attention on areas where sales gains in 1971 fell below the norm of previous recoveries—furniture and appliance stores, apparel retailers, eating and drinking places, and drug and proprietary stores.

Prospects for these outlets appear brighter. Last year's record level of new housing starts will push housing completions to a record in 1972. Combined with rising incomes and a declining unemployment rate, this will spur sales of furniture and appliances. Indeed, the secondary impact of the building boom is already

Recovery '71:

Some retail sales picked up fast. . .



Retail sales categories as defined and reported by the Bureau of the Census. Bars show percentage changes between average levels of sales in trough quarter of business cycle and quarter one year later.

discernible; in the first six weeks of 1972, sales in stores that specialize in this type of merchandise ran 8% above sales in the comparable weeks of 1971.

Although sales of nondurable goods in general are relatively immune to the swings of the business cycle, apparel and restaurant meals are probably exceptions. The latter can be expected to respond to a general improvement in incomes and the economy. In the case of eating and drinking places, at least, such a response was already evident in the first six weeks of this year.

Thus, the fact that sales of automobiles accounted for a large share of the growth of retail sales last year does not necessarily imply that the growth of total sales will be less robust this year. It is as plausible to speculate that the rapid rise in consumer outlays for autos diverted expenditures from other categories. In any case, the recent strength of consumer demand for such big-ticket items as domestic automobiles and color-TV sets, the continued climb in housing starts, and the high level of consumer liquid assets in general and savings deposits in particular suggest that retail sales will continue to lead economic expansion.

MONEY: International

The failure of speculative funds to flow from other currencies back into the dollar is blamed on the low level of short-term interest rates in the United States. At the same time, the Federal Reserve has come in for a good deal of criticism in European financial circles for allowing short-term rates to sink so low. The Fed is berated for its alleged failure to follow the restrictive sort of monetary policy critics deem appropriate for a country whose currency has just been devalued and which seeks to improve its trade balance and strengthen its currency on the exchange markets. The Fed's critics apparently have in mind Britain's experience following the pound's devaluation in November 1967, when the Bank of England's failure to adopt a restrictive monetary policy until late in 1968 undoubtedly delayed the recovery in Britain's balance of payments.

Although higher U.S. interest rates and lower

Does the right hand know which pocket the left is in?

Taxpayers who were startled to find that the federal taxes withheld from their paychecks rose sharply after mid-January are probably wondering what happened to the tax cuts the Administration supposedly pushed through a cooperative Congress last year. The paradox indicates that the amount of tax owed and the amount collected through wage withholding don't always change in the same direction, much less in the same degree.

The paradox grew out of the Tax Reform Act of 1969. The withholding tables incorporated in that legislation didn't allow for enough withholding from the paychecks of many workers, particularly those whose spouses were also employed. To correct this, Congress put new tables in the Revenue Act of 1971.

The House Ways and Means Committee had advocated phasing the new withholding in over a two-year period "in order to avoid a large . . . reduction in takehome pay at one time." But the Senate opted for an immediate introduction of the full new system. And the Senate version prevailed.

The result in the long run will be better coordination of income-tax withholding and tax accruals. In the short run, it means a $2 billion increase in federal tax collections in 1972 that will offset the impact of higher exemptions and other relief features approved last year, as far as many workers are concerned. And there is a double whammy: Those who owe large tax bills on their 1971 income will have to pay them out of takehome pay shrunken by the stepped-up withholding.

As logical as it all may be from a tax collection standpoint, the decision to introduce the new withholding procedures at this time hardly squares with the expansionary intent of last year's tax cuts. The higher withholding rates, increased Social Security taxes and proposed user charges are bound to mean that Congress and the Administration will get less immediate economic bang for their tax-cut buck.

rates in Europe would doubtless create some incentive for funds to flow back into dollar assets, interest rates are not the main reason the dollars haven't come home. The roadblock now is the exchange risk of holding dollars rather than other currencies, in circumstances where the dollar is under one-sided selling pressure against stronger European currencies in the spot-exchange market and is trading at a large discount in the forward market. Such a one-sided exchange risk represents a substantial reduction in the effective yield on dollar assets. If, for example, a dollar investment is hedged by selling dollars in the forward exchange market, the large forward discount of the dollar reduces the effective yield; and even if the exchange risk is not hedged, the perceived risk reduces the yield that the investor can reasonably expect.

How long these one-sided expectations about the dollar will persist is by no means clear. Much depends on how soon the current account of the U.S. balance of payments begins to show signs of improvement.

Yet even when the U.S. deficit narrows and the dollar ceases to be under one-sided selling pressure on the exchanges, the return of speculative funds to the dollar may be disappointing. For the dollar's attractiveness as a medium for investment may have been materially affected by last year's events. A key currency once thought to be immune to devaluation and then devalued has changed its status. Like other currencies, the dollar is now perceived in the markets to be subject to long-term exchange risks.

Foreign criticism of Fed policy seems largely beside the point. The money supply barely grew at all from August to December 1971. Thus the

Fed cannot be blamed for the steep decline of interest rates, which began in August. Downward revision of price expectations and factors affecting the real rate of interest, rather than "liquidity effects," were evidently responsible. Chairman Arthur F. Burns of the Federal Reserve Board put the problem in perspective when he suggested that critics should also ask "if some foreign interest rates are too high."

Since December, the Fed's resumption of a moderately easy policy may have played some part in the further decline of short-term rates. But the central bank has had little real choice—a restrictive policy would have threatened the continued recovery of the U.S. economy. Moreover, the view that a moderately expansionary monetary policy is inconsistent with the success of the dollar's devaluation overlooks the large amount of slack in the U.S. economy and the damping of price inflation. Britain's experience after the 1967 devaluation is hardly relevant; when the pound was devalued, the British economy was at full employment.

MONEY: Domestic

Short-term interest rates moved sideways in February. It was as though the uncertainty generated by "troubled times," as Chairman Burns put it, had placed the money markets into suspended animation. Whatever growth there was in the demand for loans was apparently offset by the Fed's continued injection of liquidity into the system. Another month went by with no return flow from Europe—a red herring already dragged through the section above—nor, more importantly, did the expanding economy seem to exert its usual upward pressure on short-term rates.

Short-term rates continued to be depressed, hovering about levels not seen since the early 1960s. Perhaps this is due to a sharp—possibly exaggerated—decline in price expectations, indicating the market's confidence that the President's price-and-wage controls will succeed. Another source of low rates may be the unusually long lag between the expansion of economic activity and a strong increase in the demand for credit.

This lag may be the result of the buildup in both corporate and household liquidity during the past few years. Corporations went to the long-term market in unprecedented numbers and for unprecedented sums during 1970 and 1971. Household savings rose to levels not achieved since the early 1950s. However, as the economy expands and uncertainty about the future diminishes, credit demands must inevitably accelerate.

Implicit inflation premiums indicate the extent to which current short-term interest rates deviate from norms suggested by the level and trend of economic activity. The nominal 90-day commercial paper rate, which averaged about 3.8% during February, carries an implied annual inflation premium of between 0.8% and 1%, which is imposed on a real rate that has averaged around 2.8-3% since 1964. In contrast, the most hopeful forecast of price behavior assumes that prices will rise at the rate of 2-3% during 1972, and the consensus forecasts cluster in the 3-3.5% range. Clearly, then, the rate of inflation implied by current short-term interest rates is far too low.

More evidence of disequilibrium is apparent in the relationship between current long- and short-term rates. The nominal Aa-utility rate has varied between 7% and 7.5% over the past few months. And assuming that real long-term rates have remained within their recent historical band of 3.25-3.5%, these rates suggest that prices are expected to rise at an annual rate of between 3.5% and 4%. To be sure, long-term rates are slow in responding to changes in prices or price expectations. But a spread as large as 2-3 percentage points between the implied price expectations in the long- and short-term markets cannot for long endure.

To anticipate a continuation of the current spread between long- and short-term rates is tantamount to turning Lincoln's adage on its head: assuming that it's possible to fool all of the people all of the time. It is more reasonable to suppose that the spread will be narrowed as short-term rates rise to their equilibrium level, even if the ongoing economic recovery is coupled with an expansionary monetary policy.

To the brink of a trade war—a 20th Century fantasy

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With the lowering of political barriers between nation states, international trade and investment grew more rapidly in the 20th Century than in any other 100-year period. But there were reversions to protectionism in what was otherwise a century of progress.

The first came in the wake of the Great Depression that began in 1929. One country after another, in an effort to check the rise of unemployment and maintain its stock of gold, erected barriers to international movements of goods and capital, and through the 1930s most trade was carried on under bilateral agreements and exchange controls. . . .

In the quarter century following World War II, multilateral trade and currency convertibility were restored with the substantial reduction of trade barriers. At the same time, multinational corporations served as efficient vehicles for the transfer of capital and technology. . . .

But all that had been so laboriously accomplished was threatened by a single act of the Congress of the United States—the passage of the Foreign Trade and Investment Act of 1972. It was known as the Burke-Hartke bill, so named for James A. Burke, a representative from the state of Massachusetts, and Vance Hartke, a vocal senator from the state of Indiana and one of the many aspiring Presidential candidates in that election year.

The Burke-Hartke bill, which had the strong —but not unanimous—support of organized labor, passed Congress as a rider to legislation providing for increased Social Security benefits. President Richard M. Nixon, to the surprise of critics, vetoed the bill in a powerful message. But Congress overrode the President by a slim margin. In the end, many a congressman who knew better voted for the Burke-Hartke rider, deluded by the hope that a majority of his colleagues would mix courage with conviction. . . .

Although its declared purpose was to "promote full employment," the Burke-Hartke bill was in fact a prescription for the economic isolation of the United States. . . .

- It limited 1972 imports not already under restrictions to levels nearly 40% below those of 1971 through comprehensive product and country quotas.
- It repealed the U.S. tax credit for foreign taxes paid; imposed U.S. taxes on foreign earnings, whether or not distributed; prohibited the accelerated tax depreciation of overseas property; and taxed gains arising from the transfer of patents or other technological information to a foreign corporation.
- It empowered the President to prohibit the export of capital or technology to foreign countries whenever such transfers would result in a net decrease in U.S. employment.

Universal quotas, which were to be administered by a three-member Foreign Trade and Investment Commission, had long been urged by protectionists who realized that their ends could best be served by the bureaucratic crippling of the price system rather than tariffs. . . . Limiting imports not already under quotas to the average level for 1965-1969—as the act provided—would have resulted in a cut of nearly $10 billion. . . .

While the quotas were designed to relieve unemployment, the record shows that U.S. merchandise imports and employment rose together in the 1959-71 period. In fact, the gains in employment were largest in years of highest import growth. This, together with other evidence, demonstrates that it was the weakness of domestic demand, not import competition, that raised U.S. unemployment from 1969 to 1972. . . .

Other provisions of the bill were designed to cripple, if not destroy, multinational companies by discriminatory tax action and limitations on their freedom to conduct business. The authors of the bill and many of its labor supporters looked on multinational companies as "runaway plants" that moved abroad to take advantage of lower labor costs, thus creating unemployment when they moved and perhaps even more when the overseas plant began exporting to the United States.

That fallacy, however, was thoroughly exposed by the Emergency Committee for American Trade (ECAT). In a survey of 74 multinational companies with more than 3.3 million employees, ECAT found their exports from the United States to be $12.2 billion in 1970 and their imports only $5.5 billion. Both their imports and exports rose substantially during the 1960s, but the preponderance of exports strongly supported the argument that overseas investment was principally undertaken to serve foreign markets. And in accomplishing that end, multinational companies made a substantial contribution to the growth of U.S. employment. . . .

The same strictures apply to the standby restrictions on the international transfer of technology. . . . What is astonishing is that such a quixotic effort was made at a time when the rapid dissemination of information made it virtually impossible to maintain technological secrecy. . . .

End of a minus-sum game

Because of the time required to establish the bureaucratic machinery and the heat of the election campaign, Congress decided that enforcement of the Burke-Hartke provisions was to be deferred until December 31, 1972. It was in that interregnum that other countries acted. . . .

In late November the members of the General Agreement on Tariffs and Trade (GATT) met at Ibiza, a Spanish island that enjoyed great popularity in 1972. In the astonishingly short space of five working days, the delegates, overriding the perfunctory opposition of the United States and a few small countries, hammered out the celebrated Ibiza Declaration. It declared that the action of the U.S. Congress was inimical to the economic well-being of the world community and announced a plan of retaliatory action by 102 countries. They agreed to retaliate in kind against U.S. quota restrictions while at the same time removing all impediments to trade among themselves. They also announced an escalation timetable under which the prolonged enforcement of Burke-Hartke provisions would elicit progressively harsher retaliation by the GATT bloc. Appended to the declaration were the results of computer simulations which suggested that some 2 million U.S. jobs would be lost within six months and that the total would be much higher as the trade war heated. . . .

The Ibiza Declaration had an electrifying effect in the United States, where millions watched the GATT proceedings on television. . . . Some union leaders tried to hold the line at first. But the labor alliance came apart when the longshoremen and maritime workers, followed by the teamsters, the railway brotherhoods and the auto workers demanded repeal of Burke-Hartke. . . . A Union Committee for American Trade—UCAT—was formed; and by early December, the two "cats"—ECAT and UCAT—were working in tandem in one of the most effective lobbying campaigns ever conducted on Capitol Hill. . . .

The protectionist forces fought a skillful rearguard action. . . . But the GATT representative, who issued almost daily statements from Washington on the course of the battle, warned of instant retaliation against any vestige of the "odious restrictions". . . .

On the evening of December 24—it was said to be an unprecedented Christmas Eve session —Congress resolved by overwhelming margins to repeal Burke-Hartke. . . . There was a realization that protectionism is a minus-sum game in which all of the players lose, or in the words of the Congressional resolution: "Greater economic efficiency and higher living standards cannot be accomplished unless goods, capital and technology are permitted to move freely about the world."

Why growth is not a dirty word

Demands for zero economic growth, or ZEG, are based on claims that growth equals pollution. But growth can supply the means to create a cleaner world—which, in fact, would spur more growth.

A band of doomsayers on the extreme wing of the movement against pollution is grabbing headlines with predictions of imminent ecological disaster unless America's economic development is brought to a sudden halt. They urge a national policy of zero economic growth, or ZEG—which, in fact, would cripple the nation's efforts to solve every problem, including pollution.

For the ZEGist, there is no hope. But there is no inherent conflict between responsible environmentalists and those who believe that continuing economic growth is essential.

Too often the pollution fighters impale themselves on the horns of a false dilemma: growth or a clean environment. Their dilemma is worsened by their crusading demands for across-the-board environmental standards, which could push pollution control far beyond the point of maximum benefit for society as a whole. A cleaner world could be achieved just as easily by more flexible methods—in particular, by bringing the powerful forces of the marketplace to bear upon pollution problems.

Aside from questions of method, crusaders against pollution go astray when they designate economic growth as the enemy. The drive for ever-higher levels of affluence, they argue, requires the use of ever-more sophisticated technology. In the process natural resources are destroyed and mountains of waste accumulate. But their conflict with growth is more apparent than real. The cost of a cleaner environment is heavy, but not beyond the country's means. Above all, if the cleanup is conducted wisely and well so that no unbearable burden of expense is suddenly imposed, it will more than likely stimulate the nation's economic growth.

Eye of the storm

Gross national product is a concept that has taken a tedious battering in the pollution debate. Pollution fighters attack GNP as a digital idol worshipped by proponents of growth. It measures only the output of goods and services, they say, and ignores the pollution and industrial blight that growth generates. Therefore, it is pernicious, one-sided, and should be discarded as a guide to policy decisions.

But in the long run, GNP is much more sensitive to pollution costs and other types of social damage than its critics believe. And this is the point where the aims of the environmental crusaders and of the proponents of growth begin to converge.

Pollution costs do not necessarily show up in the GNP as quickly as benefits of economic growth—but they are there. For example, the effects of contaminated air may not be perceived immediately, but over the long run, they may cause productivity-lowering ailments for thousands of people and possibly shorten their life spans. This loss certainly slows the future growth of GNP.

Pollution also affects the productivity of capital: It eats away the useful life of equipment with corrosion; it boosts maintenance and cleaning costs; and it sullies water and air which often must be purified before entering the production process.

The pollution cleanup will eliminate these negative factors to a large extent. The Environmental Protection Agency estimates that respiratory ailments from the common cold to emphysema now cost industry more than $6 billion a year in lost time, reduced productivity and health insurance premiums. Pollution-related illnesses also sidetrack scarce medical resources that could be used to treat other afflictions. If air pollution were reduced, a healthier labor force would have a more positive impact on economic growth over the long run.

A great deal of air pollution can be curbed inexpensively. An EPA study of 298 metropolitan areas indicates that, by 1976, emissions of important pollutants could be reduced by 78% from their 1967 level at a cost of $4 billion—which seems a small price to pay for a substantial improvement in the health of much of the nation.

These, then, are the areas where the cleanup crusade joins forces with the nation's production drive. The pollution cleanup, far from being a drag on GNP growth, will increase the productivity of capital and labor.

If the price is right

Clearly, investment in pollution control will not be a wanton waste—since it will enhance the nation's human capital as well as its productive plant and equipment. But if the cost is too high or the return too small or slow, the old quarrel breaks out again. The pollution fighters will want to push ahead at any price. The proponents of growth will say that the price simply cannot be paid.

Estimates of the cost often seem staggering. They suggest that government regulations would require such large pollution-control investments that they would cripple America's ability to expand its productive capacity faster than its population grows. The figures seem to demand a significant rise in the nation's capital-output ratio—that is, a substantial increase in the increment of capital needed to produce an additional unit of output. If this were so, the result might well be a drop in America's maximum attainable long-term growth rate.

But if the planned investment seems big, it is dwarfed by the size of America's existing plant and equipment and by the stream of goods and services that the nation turns out. For this reason, if for no other, the capital-output ratio will suffer no appreciable change.

In its 1971 Second Annual Report, the Council on Environmental Quality concludes that total spending required of all economic sectors in order to reach existing national environmental standards over the 1971-75 period will amount to $105.2 billion. This is an imposing sum, but it becomes progressively less so as it is broken down into its components and put into proper perspective.

The total cleaning bill includes $43.5 billion for solid-waste management, but three-quarters of this is allotted for residential trash collection. That service is already performed as a matter of course in most communities and can hardly be counted as an added cost.

Or to take another example, private industry is expected to spend about $15 billion for additional equipment during the next four years to meet tightening standards for air and water quality. A substantial figure, but it reduces to $3.8 billion a year—about the amount that industry spent rather painlessly in 1971.

The budget for pollution control is meager when measured against total industrial expenditures for plant and equipment. Antipollution investment was only 1.8% of all expenditures for plant and equipment in 1967 and, though it more than tripled in the past five years, it will still probably represent less than 4.5% of the total spent for new plant and equipment in 1971.

Enter the market forces

These facts should cut short any agonizing over an allegedly fateful choice between growth and a livable environment. The choice need not be debated: They are not mutually exclusive alternatives. The energy spent on debate might better be directed to finding a workable solution to the pollution problem. And the key lies in our pricing system—rather than in suffocating and inflexible regulation.

Pollution exists today because air, water and land can be used for waste disposal at no cost to the user. As a general rule, resources for waste disposal will be used more efficiently—and society will be better off—when polluters adjust their emissions to the point where the cost of further abatement equals the cost of pollution to others. Such flexibility can rarely be reached with across-the-board, uniform standards because, though beloved of bureaucrats, they ignore the immense variation in conditions facing polluters. But if prices, such as effluent taxes, are set for such use, each user can adjust to market pressures and will decide for himself how much to limit his output of pollution.

For example, an analysis of the Delaware River estuary shows that, under a flexible system of effluent taxes, a sharp improvement in water quality could be achieved at a cost of $15 million. But under a scheme requiring uniform treatment of all pollution sources, the same standard would cost $24 million, an increase of 60%.

By pushing for extremes of quality, regulation may severely increase the cost of abatement without any comparable benefit. In the Kansas City area, a study showed that, under uniform standards, it would cost $26.4 million to reduce particulate air pollution by half—to 85 micrograms per cubic meter. An alternative scheme, which accounted for differences in plant locations in relation to wind patterns and abatement costs, would bring the level to 86 micrograms at a cost of only $7.5 million. In that case, an extra $19 million would buy a further improvement of only one microgram.

Under pliant systems of control, such superfluous expenditures would be much less likely.

The inevitable bill

A price must be paid for pollution control and, contrary to popular belief, it will be paid neither by large corporations nor by the federal government. In the long run, the ultimate consumer will pick up the tab. But before it reaches him, it will be passed along the economic lifeline. Depending on the methods imposed to limit pollution, relative costs will change and this will result in unpleasant dislocations.

The net effect on the national rate of economic growth will be minor. But from one economic sector to the next, some painful readjustments are inevitable. The cost impact of the pollution standards will probably fall most heavily on plants and communities already in financial trouble. Obsolete factories may have to be closed earlier than planned. Decaying communities may be unable to finance even the minimum in municipal services, and people will flee them more quickly. These changes will be hard and sad. But they are likely to be small, measured against the benefits for the nation.

Profits '71—sales carried the ball

Expanding sales, mainly in autos and housing, pushed profits higher. But margins failed to grow as vigorously as they usually do in the first year of a business recovery.

Corporate profits rebounded in 1971 from the recession levels of 1970. Earnings after taxes were 12% greater than in the previous year, but for the most part the improvement came from increased sales rather than higher profit margins. Despite price controls, fourth-quarter earnings stayed at a high level and helped sustain the gains for the year as a whole.

The annual reports to shareholders from nearly 2,700 leading corporations covered in this preliminary survey by First National City Bank show total after-tax earnings of over $36 billion in 1971. More than 1,600 manufacturing firms are included, with profits of nearly $25 billion on sales of almost $600 billion. A more comprehensive review of corporate profits in 1971, including a detailed tabulation by industry of profit margins on sales and rates of return on net worth, will be published in the April issue of this *Letter*.

Uncertain times

The business recovery in 1971 lagged behind expectations and was uneven in its impact on the economy. Concurrently, activity was repeatedly disrupted by strikes and threats of strikes, most importantly in the steel and shipping industries. These uncertainties were compounded in the second half of the year by a severe international monetary crisis, the wage-price freeze and creation of the controls machinery of Phase II.

Nevertheless, the nonfinancial corporations in the FNCB survey reported an 8.5% increase in sales in 1971, as consumer buying and home-building led the upswing. Price increases in the corporate sector averaged about 4%, somewhat less than those in the unincorporated and government sectors of the economy. Thus, half or more of the sales increase represented real growth.

With higher volume, the effects of the cost-cutting accomplished in 1970-71 began to be apparent in improved productivity. For the private nonfarm sector as a whole, output per man-hour rose 3.4% in 1971, the best advance since 1966. This partially offset the 6.9% increase in employee compensation per man-hour and held the rise in unit labor costs to 3.4%. However, there were marked increases in depreciation, taxes and other costs so that, on the whole, cost increases roughly matched price increases, and profit margins were only slightly higher.

In the FNCB preliminary survey, nonfinancial corporations reported profit margins averaging 5.0¢ per sales dollar compared with 4.9¢ for the same group of firms in 1970. In both of these years, the margins were among the lowest since the end of World War II. However, the rate of return on net worth improved significantly, recovering to an average of 10.1% in 1971 from 9.4% in 1970 for all of the corporations covered in the preliminary survey.

The GM effect

To a considerable extent the improvement in earnings in 1971 reflects the changing fortunes of one giant corporation. In 1970, General Motors was beset by sluggish sales and a protracted strike. In 1971, a good auto sales year was enhanced by the carryover of demand from the strike period, and GM's profits more than tripled to $1.9 billion, although they were

Preliminary summary of net income of leading corporations, 1970 and 1971

(millions of dollars)

No. of cos.	Industry groups	Reported net income after taxes 1970	1971	Per cent change
119	Food products	$ 1,088.1	$ 1,197.5	+ 10
30	Beverages	421.6	464.0	+ 10
7	Tobacco products	430.1	496.7	+ 15
54	Textile products	199.2	185.1	− 7
62	Clothing & apparel	150.7	157.2	+ 4
17	Shoes, leather, etc.	93.8	99.8	+ 6
44	Rubber & allied prod.	343.2	455.4	+ 33
18	Lumber & wood prod.	269.5	296.4	+ 10
24	Furniture & fixtures	30.7	39.8	+ 30
44	Paper & allied prod.	489.8	425.1	− 13
65	Printing & publishing	321.8	338.5	+ 5
85	Chemicals, paint, etc.	1,425.6	1,550.3	+ 9
59	Drugs, cosmetics	1,364.1	1,541.8	+ 13
73	Petroleum	5,820.7	6,294.0	+ 8
51	Cement, glass & stone	413.7	546.9	+ 32
50	Iron & steel	599.7	580.4	− 3
34	Nonferrous metals	930.3	469.2	− 50
99	Fabricated metal prod.	439.5	433.5	− 1
134	Machinery	927.5	903.7	− 3
54	Office eq., computers	1,205.4	1,280.1	+ 6
226	Elec. eq., electronics	1,560.3	1,639.1	+ 5
42	Autos & parts	1,285.0	2,953.7	+130
34	Aerospace	508.3	580.1	+ 14
102	Instruments, photo.	1,155.5	1,268.4	+ 10
78	Other manufacturing	190.4	239.0	+ 26
1605	**Total manufacturing**	**21,664.5**	**24,435.7**	**+ 13**
13	Metal mining	131.4	110.9	− 16
8	Other mining	104.7	67.9	− 35
21	**Total mining**	**236.1**	**178.9**	**− 24**
37	Food chains	325.8	329.1	+ 1
67	Variety chains	166.2	182.6	+ 10
34	Dept. & mail order	188.8	217.3	+ 15
149	Wholesale & misc.	508.5	401.4	− 21
287	**Total trade**	**1,189.3**	**1,130.4**	**− 5**
68	Class I railroads	229.0	360.0	+ 57
59	Airlines & other	69.5	261.7	+376
127	**Total transportation**	**298.5**	**621.7**	**+108**
151	Elec. power, gas	3,607.0	4,016.7	+ 11
10	Telephone, telegraph	2,530.7	2,625.7	+ 4
161	**Total public utility**	**6,137.7**	**6,642.4**	**+ 8**
34	Amusements	70.5	69.9	− 1
43	Restaurant & hotel	80.3	63.4	− 21
245	Bus. service & constr.	366.3	459.5	+ 25
322	**Total services**	**517.1**	**592.8**	**+ 15**
2523	**Total nonfinancial**	**30,043.3**	**33,602.0**	**+ 12**
30	Comm. bank holding cos.	1,338.5	1,495.1	+ 12
83	Investment funds	712.5	666.8	− 6
23	Sales finance	392.9	466.5	+ 19
35	Real estate	45.2	64.3	+ 42
171	**Total finance**	**2,489.1**	**2,692.7**	**+ 8**
2693	**Grand total**	**$32,532.4**	**$36,294.7**	**+ 12**

still short of their 1965 record. Without GM, the 1970-71 increase in corporate earnings would have been reduced from 12% to 8%, and profit margins would have remained virtually unchanged from 1970 to 1971.

Even without General Motors, earnings in the automobile industry jumped by one half over 1970—the best performance of any manufacturing industry in the first table. Most other substantial increases were tied either to the auto revival or the housing boom, including those in the tire, glass, cement, paint, building materials and furniture industries. In contrast, nonferrous-metals firms saw their earnings slashed in half due to strikes, slow demand and weak prices. Other basic industries such as textiles, paper and steel also experienced reduced profits in 1971, while slowing demand for capital goods brought a decline in machinery manufacturers' profits.

Among the nonmanufacturing firms there was a pronounced rebound in the earnings of air, rail and truck transport companies from the depressed 1970 level. Sales finance, construction and real estate companies reflected the auto and housing upswing. Retailers other than food chains had good earnings despite the price freeze, but substantial losses at a large oil distributor pulled down the average for wholesaling.

Year-to-year boost

The spectacular increase of 24% in corporate profits in the fourth quarter from a year earlier mirrored, even more than the annual totals, the swing from a General Motors deficit during the 1970 strike to a $542 million profit in fourth-quarter 1971. Excluding GM, other corporations on the average boosted earnings 15% over a year earlier. Even so, this was a marked improvement from the average year-to-year increase of 5% in a similar group of corporations during the first nine months of 1971. The advance appeared to be part of a general recovery in profits, since three out of four firms in the survey reported a year-to-year increase in earnings in the fourth quarter.

Manufacturing firms boosted profits 27% in the fourth quarter from the corresponding 1970 period; without GM the gain was 14%. The increase of 20% over the third quarter was, however, only slightly more than the usual strong seasonal rise that accompanies the holiday selling season and new model introductions. Consequently, Citibank's seasonally adjusted index of manufacturers' after-tax profits (1967=100) remained unchanged from the third quarter at 114. (The index has been tentatively revised to the benchmark levels provided by the preliminary results of the annual

Net income of leading corporations for fourth quarter of 1971

(millions of dollars)

No. of cos.	Industry groups	Fourth qr. 1971	Per cent change from fourth qr. 1970	Per cent change from third qr. 1971
84	Food products	$306.2	+ 6	+ 6
26	Beverages	87.5	+ 3	− 21
8	Tobacco products	123.1	+ 4	− 10
45	Textile products	66.1	+ 20	+ 49
38	Apparel	41.4	+ 47	− 21
38	Rubber & allied prod.	95.3	+ 100	+ 12
38	Paper & allied products	117.5	+ 8	+ 10
54	Printing & publishing	119.4	+ 12	+ 20
68	Chemicals, paint, etc.	383.6	+ 33	+ 3
54	Drugs, soap, cosmetics	435.7	+ 13	+ 5
67	Petroleum prod. & ref.	1,667.6	+ 1	+ 7
52	Cement, glass & stone	156.7	+ 43	− 6
52	Iron & steel	133.4	+ 55	*
32	Nonferrous metals	100.0	− 42	+187
88	Fabricated metals	124.3	+ 34	− 9
121	Machinery	186.7	+ 13	+ 13
29	Office & computing equipment	338.5	+ 11	+ 15
173	Electrical equipment & electronics	519.0	+ 15	+ 20
40	Automobiles & parts	878.3	+1,346	+131
29	Aerospace	140.4	+ 49	+ 10
73	Instruments, photo. goods	392.8	+ 20	+ 15
121	Other manufacturing	210.7	+ 33	+ 10
1330	**Total manufacturing**	**6,624.1**	**+ 27**	**+ 20**
19	Mining & quarrying	36.6	− 43	− 11
206	Trade	388.6	− 8	+ 54
204	Services & amusements	176.3	+ 138	+ 2
21	Railroads	194.5	+ 14	+ 26
30	Common carrier trucking	43.8	+ 61	0
27	Air & other transport.	56.9	*	− 72
128	Electric & gas utilities	941.8	+ 13	+ 8
10	Telephone & telegraph	688.0	+ 7	+ 10
645	**Total nonmanufacturing**	**2,526.5**	**+ 19**	**+ 7**
1975	**Total nonfinancial**	**9,150.6**	**+ 25**	**+ 16**
30	Commercial bank holding cos.	385.2	+ 5	+ 4
2005	**Grand total**	**$9,535.8**	**+ 24**	**+ 15**

* Not computed because of deficit in one of the periods.

profits survey.) This is somewhat less than the second-quarter index of 116 and still further below the fourth-quarter 1968 high of 119.

All the manufacturing industries shared in the year-to-year gains, except nonferrous metals. Large increases in earnings were not confined to the automobile and homebuilding industries and their suppliers. Apparel, chemicals, aerospace, and steel all reported significantly better-than-average gains.

The proportion of manufacturing firms showing greater profits than in the previous quarter on a seasonally adjusted basis—Citibank's quarterly diffusion index—slipped markedly to 47 in the fourth quarter from 58 in the third.

These fourth-quarter figures should be used with caution, since in a great many cases they are derived from the difference between annual earnings statements and the results for the first nine months. Thus, the effect of year-end bookkeeping adjustments and tax changes are concentrated in the fourth quarter.

To the extent that controls have precluded desired price increases, they have compounded the effects of sluggish recovery, strikes and import competition. In earlier recoveries since World War II, profits have rebounded 25% to 40% during the first four quarters of the recovery in earnings. With the GM turnaround excluded, earnings in this recovery have not been nearly that strong. Particularly significant is the absence of the pronounced upswing in profit margins that usually occurs in the first year of recovery. The need for better margins within the limits imposed by the Phase II controls has intensified management efforts to cut costs and improve efficiency. Hopefully, the increased sales volume anticipated for 1972 will help bring margins back from this historically low ebb.

'No free lunches' on the campus

A human capital market would solve the financial crisis in higher education. It would permit students to get long-term loans based on their future earning power—and enable them to pay the real costs of tuition.

A New York State commission appointed to study the financing of higher education recently disbanded after listing 100 options and recommending that yet another commission be established to study the problem. The latter recommendation was not advanced unanimously—there was not sufficient agreement among the members to achieve even that.

If this seems another example of the ambivalence of New Yorkers, a look at the educational problems of other states across the nation shows otherwise. Current methods for financing the dual system of college training—public and private—are forcing it toward a single system of state-owned-and-operated universities. This is particularly unfortunate since the growth of knowledge itself depends on a diversity of approaches to education. The basic absurdity of this trend—and the imminent death of private schools—is that it is exactly what follows from ignoring so simple an economic tenet as pricing to cover costs. Equally absurd are the so-called options that would continue to pour on public funds in a well-meaning but inept attempt to provide equal, quality education for all.

Relief from the economic vise squeezing both private and public schools lies not, as some have suggested, in ever more and bigger government grants to education. It lies instead in a radical rethinking of the way to finance the acquisition of human capital—knowledge; in short, the establishment of a human capital market.

New York State is currently a major battleground where the equal-education philosophy clashes with economics. Recently, the presidents of New York, Syracuse, Columbia, Cornell, Fordham and Rochester universities warned in a joint statement that many private schools in the state were in danger of "financial collapse" and called for emergency action in the form of more state aid and increased fees at public institutions. Deficits for these universities in 1971 totaled some $30 million.

This red ink was spilt despite tuition fees that averaged $2,500 per student per year. But the pertinent variable in the equation is enrollments—and private schools throughout the state counted 15,000 vacancies in their freshman classes as the fall semester began. At the same time, City University of New York was bursting at the seams, with undergraduate tuition fees of zero dollars per student.

Obviously, CUNY could ease its student population explosion and its financial woes by charging tuition commensurate with its costs. Obviously, too, such a move would redound to the benefit of the private colleges. The major roadblock to this kind of relief is, of course, insistence on equal educational opportunity.

Who pays the piper?

The problem is best expressed by the aphorism that "there are no free lunches." In other words, the free tuition policy ignores a fundamental economic fact of life. In a world of scarce resources, someone must bear the cost. And in many cases where goods and services are distributed free of direct user charges, the burden is borne by the very people the subsidization is designed to help.

It is a matter of record that the low-income families that free tuition is purported to benefit pay proportionately more of the costs themselves, while the real beneficiaries are the middle classes who could well afford to send their children to any school—all tuition fees being equal.

In addition, the absence of direct costs induces many students to stay in school longer than they would if they had to pay. This increases the direct costs—borne by the taxpayers—of educating an individual and the indirect costs borne by the student.

Supplying education as a "free good" also fails to equalize opportunity. The student from the ghetto, for example, must go to the free school, even if his educational and psychological needs would be better served by some other school. The main point being missed by the advocates of free education for everyone—and especially the poor—is that the cost of education to the poor consists not only of free tuition, which they must pay for through taxes, but also of lost income to the family while the children attend college. In fact, some analysts find that this cost—the opportunity cost of being educated—is the largest portion of a student's investment in his education. To be consistent, then, the proponents of free tuition must provide subsidies to lower-income familes to make up for that lost income.

However, even if one starts with the premise that no one should be denied an education because of lack of funds, it does not follow that education must be provided free. Moreover, it does not even follow that education should be provided free to those unable to pay for it out of current income. The real problem is not the student's current poverty but rather his inability to raise the cash for college expenses. In other words, what is needed is a new financial option for students.

An opportunity bank

Such a proposal originated with Milton Friedman over a decade ago and has been endorsed by the Presidential Panel on Educational Innovation. The plan involves setting up a public or private agency that would lend money to students to cover tuition fees and living costs for a specified number of years, providing the funds are spent at a recognized institution. The student would agree to pay back a set percentage of his earnings in excess of some base for each $1,000 received from the agency. The base would be his estimated average earnings without special training. For example, a Commerce Department study, based on 1960 census data, calculates that the income of a typical college graduate through his lifetime exceeds, by $426,000, that of the average high school graduate.

The payback could be calculated to make the program self-financing and could be withheld from current income or remitted at tax time. Preliminary estimates suggest that such a lending agency, with access to funds at interest rates accorded the most credit-worthy borrowers, could be self-sustaining if the repayment was 1% of gross income for each $3,000 borrowed and the term of repayment 30 years. Similar but less ambitious plans were inaugurated last fall at two major U.S. universities.

Why a human capital market?

The reason such a plan ever saw the light of day is that, unlike the credit market for investment in productive machinery or homes, the human capital market is virtually nonexistent. Unlike the investor in physical capital who pledges the equipment, the student cannot offer himself as collateral.

Furthermore, even when loan money is available, the terms are not ideal in either flexibility or term of repayment. The loans are generally for five to seven years and require fixed and immediate payments. The conventional credit market treats investment in human capital as a personal consumption loan, even though the purpose of the loan is more like investment in productive physical capital. Most basic of all, though, the power—and the burden—of borrowing, under most current plans, rests on the parents of the student, while the latter reaps the benefits of higher income over his lifetime.

However, even when credit is available on reasonably acceptable terms, the uncertainty of his future may make the student unwilling to commit himself to the burden of fixed payments. This is especially true of children from low-income families, whose background has made them skeptical of their prospects. A human capital market would overcome this problem since the amount to be repaid would depend on future income.

Higher education demonstrably improves the economic productivity of an individual—which is basically why students go to college. The educational opportunity agency would provide the money for students to pursue their goals and capture the economic benefits. Subsidization induces too many to get training—that is, it induces people to go beyond the point at which the extra costs are justified by the extra returns.

If educational opportunities are to be broadened and if the present dual system of higher education is to survive, a more rational system of financing must be introduced. The ready availability of long-term financing to the student through a human capital market, combined with full-cost pricing by the schools, may be the answer.

Economics Department, First National City Bank
399 Park Avenue, New York 10022

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FR 373

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date March 9

To Members of the Board

From Chas. Molony

Attached is the text of the ABA letter excerpted in the Wall Street Journal story today on page 8.

for dinner meeting April 18

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036

PRESIDENT
ALLEN P. STULTS
AMERICAN NATIONAL BANK AND
TRUST COMPANY
CHICAGO, ILLINOIS 60690

March 6, 1972

The Honorable William Proxmire
Chairman, Joint Economic Committee
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

In your letter of February 4, 1972, you invited The American Bankers Association to submit written comments on the economic issues which concern the nation and our organization. This letter conveys the official views of our Association on this important matter.

The American Bankers Association has applauded President Nixon for taking bold action since August 15, 1971, to stem persisting inflationary pressures domestically and to reverse the growing deficit in our international balance of payments. At the same time, the Association has also stressed the need to complement controls with appropriate fiscal and monetary policy measures, in order to permit an early phase-out of the temporarily imposed wage-price constraints.

Members of the banking and financial community recognize that fiscal and monetary policy measures must be responsive to the needs of a growing economy. At the same time, however, it is important to note that a fine line exists between appropriate stimulation of real economic growth and the rekindling of inflationary expectations. Clearly, the anticipated 38.8 billion dollar deficit for this fiscal year -- which would involve an estimated 8 billion dollar deficit even if the economy were operating at full employment -- could tip the scales in the direction of renewed inflationary pressures and expectations. This, in turn, may jeopardize the possibility of achieving non-inflationary growth domestically and an improved trade position internationally, as envisioned under the President's New Economic Program.

In the area of monetary policy, we note that the Federal Reserve has again moved to ease monetary conditions substantially, and short-term interest rates have fallen dramatically. This effort to make credit conditions much easier as the economy moves upward has certain disturbing implications. The weakness of the dollar in foreign exchange markets, and continued uneasiness in domestic money markets, reflect these concerns and bear witness to the persistent uncertainty which exists about inflation both at home and abroad.

The failure to achieve a steadier pattern in monetary policy also has important implications for both financial conditions in the short run and the

achievement of sustained economic growth in the long run. To be sure, the need to finance a substantially enlarged federal deficit, coupled with other credit demands which can be expected to develop in 1972, only compounds the difficulties associated with achieving orderly growth in money and credit. A less expansionary fiscal policy than currently envisioned would moderate prospective upward pressures on interest rates and be more conducive to an orderly growth in monetary aggregates. This, in turn, would alleviate the dangers of seriously disruptive changes in the total flow and allocation of credit that would accompany the development of excessive upward pressures on rates of interest.

Improved productivity represents another important ingredient for achieving non-inflationary growth in our economy. The Association has long supported the modernization of plant facilities and work rules, and the elimination of numerous rigidities in the economy, as steps toward increasing the growth of productivity. Additional attention should be focused on the development of appropriate programs and policies in this area.

Finally, the Association wishes to express the uneasiness of the financial community concerning the implementation of certain aspects of the Phase II wage-price program. The difficulties experienced by the Wage Board in holding wage increases to a level consistent with the Price Commission's goals obviously contribute to inequities, and may result in a breakdown of public support for the program before it has achieved its objectives.

In summary, we strongly recommend that the Administration place greater emphasis on programs designed to garner the long-term employment benefits of non-inflationary economic policies. To achieve this, we urge both the Administration and the Congress to hold the growth of Federal expenditures below present budget levels during the critical months that lie ahead. This would permit the monetary authorities to adopt a steadier approach to implementing monetary policy. In addition, we suggest that the Congress and the Administration continue to emphasize the importance of productivity as a basic determinant of compensation levels. Finally, we urge the Wage Board and the Price Commission to work together more closely in the future to ensure the success of the President's efforts to curtail inflationary pressures and expectations in the economy. Hopefully, taken together these measures will enable the Administration, at an early date, to remove the restraints temporarily imposed on wage and price decision-making in the economy.

Sincerely,

Allen P. Stults

Allen P. Stults
President

cc - Hamilton D. Gewehr, Administrative
Clerk (30 copies)

[c. 3/72]

SUBJECTS OF INTEREST TO CHAIRMAN BURNS FOR POSSIBLE
COMMENT BY MEMBERS OF THE ABA GOVERNMENT BORROWING COMMITTEE

1. Prospective loan demand.

2. The outlook for interest rates, especially long-term rates.

3. Any suggestions for what the Committee on Interest and Dividends ought to be doing, currently or in the situation foreseen for the rest of 1972.

4. Reactions to the Board's proposed regulatory changes regarding reserve requirements (Regulation D) and check collection (Regulation J).

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

April 3, 1972

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The building (Bender) has another entrance on L Street, near 18th. Our board room is on the 7th floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 4:00 p.m. on April 25, 1972.

Sincerely yours,

H A Rabon

H. A. Rabon
Associate Federal Administrative Adviser

Enclosure
HAR(WTH)fv

AGENDA
GOVERNMENT BORROWING COMMITTEE
THE AMERICAN BANKERS ASSOCIATION
April 25-26, 1972

Tuesday, April 25, 1972

9:15 a.m.	Committee meets in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. (7th Floor) 1/
10:00 a.m.	Committee to review slides in Room 2334 of the Treasury 2/
11:00 a.m.	Committee to meet with Under Secretary for Monetary Affairs, Mr. Paul Volcker, in Room 4125 of the Treasury Department for backgrounding 3/
12:30 p.m.	Refreshments - Statler-Hilton Hotel, 16th & K Streets, Ohio Room (2nd Floor)
1:00 p.m.	Luncheon - California Room (2nd Floor)
2:30 p.m.	Committee to reconvene in Board Room of The American Bankers Association Chairman Burns (Federal Reserve Board) will meet with the Committee at 4:00 p.m.
6:30 p.m. 7:00 p.m	Cocktails - Chinese Room Dinner - Chinese Room Mayflower Hotel

Wednesday, April 26, 1972

9:15 a.m.	Committee to reconvene in Cafeteria Conference Room 6th Floor of The American Bankers Association, 1120 Connecticut Avenue, N.W.
10:00 a.m.	Committee to report its recommendations to Secretary Connally and the Treasury Financing Group in Room 4125 of the Treasury Department 3/

1/ This location is on Connecticut Avenue across from the Mayflower Hotel.

2/ Treasury will use the regular projection room on the second floor on southwest corner of building (corner facing the Mall and the White House).

3/ Conference with under Secretary for Monetary Affairs and report to the Secretary of the Treasury will be held in the 4th floor Conference Room on north side of building facing Pennsylvania Avenue.

March 22, 1972

GOVERNMENT BORROWING COMMITTEE

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THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

July 11, 1972

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The Building (Bender) has another entrance on L Street, near 18th. Our board room is on the 7th floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 4:00 p.m. on Tuesday, July 25, 1972.

Sincerely yours,

Hampton Rabon

Hampton Rabon
Federal Administrative Adviser

Called - Mr. Daane will attend.
CM

Enclosure
HAR:fv

AGENDA
GOVERNMENT BORROWING COMMITTEE
The American Bankers Association
July 25 - 26, 1972

Tuesday, July 25, 1972

9:00 a.m.	Committee meets in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. (7th Floor) 1/
10:00 a.m.	Committee to review slides in Room 2334 of the Treasury building 2/
11:00 a.m.	Committee to meet with Under Secretary for Monetary Affairs, Mr. Paul Volcker in Room 4426 of the Treasury building for backgrounding 3/
12:30 p.m.	Refreshments
1:00 p.m.	Luncheon Cabinet and Pan American Rooms, Mayflower Hotel
2:30 p.m.	Committee to reconvene in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. (7th Floor) 1/ Chairman Burns (Federal Reserve Board) will meet with the Committee at 4:00 p.m.
6:30 p.m.	Cocktails
7:00 p.m.	Dinner Anderson Room, Metropolitan Club, 17th and H Streets, N.W. (Courtesy of Chairman Surdam)

Wednesday, July 26, 1972

9:15 a.m.	Committee to reconvene in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. 1/
10:00 a.m.	Committee to report its recommendations to Secretary Shultz and the Treasury Financing Group in Room 4426 of the Treasury building

1/ This location is on Connecticut Avenue across from the Mayflower Hotel

2/ Treasury will use the regular projection room on the second floor on southwest corner of building (corner facing the Mall and the White House)

3/ Conference with under Secretary for Monetary Affairs and report to the Secretary of the Treasury will be held in the 4th floor Conference Room on west side of building near the center elevators opposite the White House.

To: Chairman Burns July 26, 1972

From: J. Dewey Daane

I am attaching the recommendations of the ABA Government Borrowing Committee for this financing.

The SIA recommendations placed the same or even greater emphasis on the need for debt extension. Specifically, the SIA recommended the following exchange offering:

1. A 6% Treasury Note maturing August 15, 1976, with a 6% coupon priced at par.

2. A 6-1/4% Treasury Note at par, and

3. A 6-3/8% Treasury Bond of August 15, 1984, at 6-3/8% coupon discounted to yield 6.45.

The total of the public holders in the SIA package would be $16.6 billion. The SIA would offer the holders of the August, September, December 1972 maturities all three of the above issues, and offer the holders of the August and November 1974 maturities the two longer prongs.

I think the offering of the SIA would be appropriate. It would accomplish maximum debt extension at this time, and I do not think it would disturb the market. The Treasury seems to be leaning the same way, although Volcker is intrigued with the idea of the long bond a la ABA. I am too, but would reserve it for later on and take the SIA package or some variant.

GOVERNMENT BORROWING COMMITTEE
The American Bankers Association

Report to the Secretary of the Treasury
The Honorable George P. Shultz

Washington, D. C.

July 26, 1972

In response to your request, the Committee was pleased to consider the refinancing of the $1.5 billion 4% Treasury bonds and $2.6 billion Treasury notes maturing August 15, 1972, of which $2.3 billion are publicly held. The Committee also considered the advisability of including the refinancing of the $2.0 billion 2-1/2% bonds maturing September 15, 1972, as well as other nearby maturities.

The Committee noted the unusual opportunity provided by the relative stability of the current market for continuing the program of debt lengthening which the Treasury has pursued from time to time and which this Committee has consistently recommended. In addition, in contemplation of the probable enactment of legislation initiating a Federal Financing Bank, the Committee recognized the particular importance of placing new Treasury issues as bench marks in the longer-term market.

The Committee emphasizes the need, with respect to the international position of the United States, of employing debt restructuring to reinforce other efforts toward a lessening of inflationary pressures while at the same time maintaining a reasonably competitive relationship between interest rates in the United States and those abroad.

Against the above background, the Committee recommends that the Treasury utilize this opportunity to improve the structure of the public debt through the following exchange offerings:

1. A 5-7/8% Treasury note maturing February 15, 1976, to be priced at a discount which would provide a yield of about 6%.
2. A reopening of the outstanding 6-3/8% Treasury bond maturing February 15, 1982, attractively priced at a level not higher than par.

The Committee recommends that the foregoing securities be made available on an exchange basis to the holders of the issues maturing August 15, September 15, November 15, and December 15, 1972, as well as to the holders of the 4-7/8% and 4-3/4% notes maturing February and May 1973 respectively. The aggregate outstanding of these issues is $18.9 billion of which $12.3 billion is publicly held.

The Committee recommends that the Treasury at the same time announce its intention to offer short-term securities in the near future to deal with impending cash needs and the August 15 attrition. It is difficult (in a volatile money market climate and with shifting Treasury cash needs) to recommend the amount and term of the short-term offering at this time. These factors must be determined by the Treasury in the market environment as it develops following the completion of the August refunding.

Because of the importance of reestablishing an active and viable market for long-term Treasury debt instruments, the Committee recommends that the exchange offering be followed by an early sale of a modest amount of 20- to 25-year bonds, preferably through the auction technique. This would be a further extension of a technique which has been successfully used by the Treasury, most recently in the May 1972 offering of the 6-3/8% Treasury bonds maturing in 1982. The announcement of this offering should be made after the market has absorbed the exchange offering of notes and bonds described above.

The background briefing by the Treasury staff was most helpful to the Committee. We hope that our recommendations will be useful to you and your associates in reaching your decision.

GOVERNMENT RELATIONS

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

EXECUTIVE DIRECTOR
CHARLES R. McNEILL
202/467-4097

December 18, 1972

Mr. John C. Burton
Chief Accountant
Securities and Exchange Commission
500 North Capitol Street
Washington, D. C. 20549

Dear Mr. Burton:

The American Bankers Association endorses the principle of the Securities and Exchange Commission's new Regulation S-X Rule 5-02-1 to provide the investor more financial information on corporations in which he holds stock or in which he may invest.

The Commission quite correctly recognizes the difficulties involved in accurately disclosing compensating balances which is required as a part of the new Rule. We commend the staff for proposing an Accounting Series Release to provide guidance on this subject, and we appreciate the opportunity to comment on it.

Having carefully reviewed the draft guidelines, we can appreciate the problems which gave rise to the broad general approach that was followed. We believe, however, more certainty is essential and hope the attached memorandum will be of assistance to you in identifying some requirements in need of greater clarity. In addition, we offer our services at any time to meet with the staff to discuss the draft guidelines or other proposals in this area.

The information that will be provided the investor depends on how specifically and precisely the requirements of the Rule and release can be defined. If requirements are vague or imprecise, the company will have difficulty deciding what should be disclosed and how. This will reduce the value of the financial statement, possibly raising rather than answering questions in the mind of the investor.

Further, vague and imprecise disclosure requirements would be difficult to reconcile with the absolute liability imposed by Section 11 of the 1933 Securities Act and the liability imposed by the 1934 Exchange Act for the filing of misstatements of material information.

The Association remains concerned that even if all suggested changes are made, the corporation and its auditor still face an almost monumental task in translating to the investor through segregation and footnote disclosure a picture which is factual, understandable, and not subject to misinterpretation.

One of the principal problems in presenting an accurate picture is that a corporation usually allocates its needed liquidity (minimum operating balance and cash reserve) among various banks to meet their compensating balance requirements. Such requirements are almost always on an average-balance basis so the corporation can freely draw on any of these accounts to meet its cash needs. Consequently, compensating balance agreements often have no impact on credit costs, and the funds are, in fact, not subject to any usage or withdrawal restrictions even on a long-term basis.

The guidelines relating to compensating balances are important to the investing public. We believe additional time and study would lead to the preparation of really workable guidelines that would result in effective disclosure. Consequently we suggest a postponement of the effective date of the new Rule for three to six months. This time would give both the staff and interested parties the opportunity to develop guideline proposals that would better serve the public interest.

Sincerely yours,

Charles R. McNeill
Executive Director

December 18, 1972

Comments of
The American Bankers Association
on the draft Accounting Series Release
regarding compensating balances

Reasons for Requirement

The American Bankers Association is greatly concerned and disagrees with the assumption of both Rule 5-02-1 and the draft guidelines that a compensating balance is always a restriction on usage or withdrawal of funds. A compensating balance arrangement may be such a restriction if it is legally binding and it requires the holding of a noninterest-bearing certificate of deposit during the term of a loan or if it requires the maintenance of a specific minimum balance or specific average balance expressly subject to sanctions or penalties in the event the borrower fails to meet the requirement. Otherwise, a compensating balance arrangement or understanding is not in law or, in fact, a usage or withdrawal restriction. To say it is goes beyond, if not contrary to, the facts. The law and custom applicable over scores of years to the banking business cannot be hidden or obscured by an argument that the Rule and the proposed guidelines themselves add the necessary substance or sustenance to any compensating balance to make it a usage restriction. (See Commissioner v. Acker, 361 U.S. 87 and U.S. v. Calamaro, 354 U.S. 351 regarding efforts to create facts by regulatory fiat.)

Definitions

The guidelines should make it clear that a compensating balance requires an agreement or a meeting of the minds between the corporation and the bank as to its terms, and the agreement may be oral or in writing. We urge the definition of compensating balance on page 3 be so amended.

Form of Disclosure

Segregation, if appropriate in any case, would seem to be so only if the compensating balance arrangement is in writing and requires the holding of a noninterest-bearing certificate of deposit during the term of a loan or requires the maintenance of a specific minimum balance expressly subject to sanctions or penalties should the borrower fail to meet the balance requirements such as:

(a) A right in the bank to accelerate the maturity of any one or more outstanding loans.

(b) A right to cancel a firm agreement, if such there be, to extend credit.

(c) A right in the bank to increase the interest rate on any one or more outstanding loans, or to increase the interest rate on new loans made under the line of credit.

Should a compensating balance agreement be in writing and require the maintenance of a specific average balance expressly subject to sanctions or penalties, it would, nevertheless, seem inappropriate to segregate because the balance required to meet the agreement cannot be determined for any one day. In such circumstances a footnote disclosure should be sufficient. Similarly, footnote disclosure should be sufficient for all other compensating balance arrangements in writing; that is, those without sanctions or penalties.

For compensating balance arrangements or understandings which are not in writing, footnote disclosure should be sufficient, regardless of their terms. Compliance rests primarily on a corporation's concern for future availability of funds, and the guidelines already recognize that, if such concern is the basis for maintaining totally discretionary balances they are not reportable.

With regard to materiality of compensating balances, the Association urges that cash and its equivalent as shown in the financial statement be considered as the reference point. We hope that full consideration will be given to the above suggestions.

Measurement Problems

Turning to the disclosures which must be made, measurement or quantification of a compensating balance at best is going to be difficult and imprecise. The guidelines set out to obtain uniformity but seem to add to the problem rather than reduce it.

1. Float

The question of float and its relative impact on the companies' book balance and the banks' ledger balance both as to outstanding checks and uncollected deposits raises many complexities. Uncollected deposits are of no economic use to either the bank or the company; therefore they should be disregarded. We urged an amendment which would make it clear that the float which results from uncollected deposits need not be considered.

2. Compensation for Other Bank Services

Under the guidelines, balances maintained to compensate for bank services are not to be included in the disclosed compensating balance. However, if a bank should allow such balance to also serve in connection with financing, then it would have to be disclosed. This would be inequitable to the latter corporation. It would be required to segregate or footnote its cash or cash items when they are subject to no greater, and possibly less, restraint than the first corporation's. Also, the latter corporation and its auditors would be subjected to the additional liability that accompanies disclosure.

3. Minimum Operating Balance

The guideline provision on minimum operating balances also seems unfair. The corporation should be allowed to subtract this balance plus its cash reserve from its compensating balances because, whether or not the corporation has a credit line or a loan, the minimum operating balance and cash reserve would be on deposit. Where a balance serves an operational purpose for the company, it is difficult to characterize its simultaneous use as a compensating balance for credit as anything else but secondary.

If subtraction is not allowed, then the corporation should be allowed to comment in the footnote on the impact of its minimum operating balance and cash reserve on its compensating balances.

The guidelines would require that the impact of compensating balances on the effective cost of bank financing be reflected. The Association believes the requirements for disclosure where there is dual use and the disregard of minimum operating balances and cash reserves would distort the effective cost picture and make it appear that the corporation is paying more for its credit than a fair interpretation would determine.

All of the aforementioned problems of measurement coupled with the fact that most corporations have credit and deposit relationships with more than one bank cause the difficulties and complexities to multiply. Therefore we strongly urge consideration of the suggestions we have made.

Responsibilities

The last sentence of the guidelines suggests that the company request from its banks a reply to a confirmation which sets forth the bases of their mutual understanding on compensating balances. We suggest this sentence be struck. The first two sentences of this paragraph assign the responsibilities under the Rule and guidelines to the company and its auditor, but the last sentence might be construed in a civil suit, if there is a misstatement of a compensating balance, to put the bank in the same position as the company.

D R A F T 11/24/72

For RELEASE

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

ACCOUNTING SERIES
Release No.

Compensating Balances

Introduction

One of the recent amendments to Regulation S-X, "Form and Content of Financial Statements" (Accounting Series Release No. 125), called for the expansion of Rule 5-02-1, which relates to cash and cash items. Since its issuance questions have been asked about the nature of expected compensating balance disclosure. The purpose of this release is to provide guidance on this topic.

Reasons for Requirement

Compensating balances are a significant element in lending, banking and liquidity decisions by management which are reflected in the financial statements of a firm. Specifically, (1) compensating balances are an integral part of arrangements for bank financing and therefore are a factor in measuring the effective cost of financing; (2) because such balances in effect (if not legally) limit the usage of reported cash balances on an intermediate or long-term basis, they have different liquidity characteristics than balances not subject to such requirements; and (3) an appraisal of management's financial policies is assisted by an understanding of compensating balance arrangements.

Unfortunately, despite the importance of compensating balances and despite the general recognition in the financial community that they exist, disclosure of such arrangements in financial statements has been extremely infrequent. When disclosure has occurred, very few details have been given so that statement users are unable to deal analytically with the subject. Lack of disclosure has been justified on the grounds that such arrangements were generally unwritten, informal and not subject to precise quantification. None of these reasons are sufficient to support a policy of nondisclosure of a phenomenon which is recognized to be both real and significant. They do, however, support the need for disclosure guidelines so that reasonably uniform and understood standards can be applied in determining the form of disclosure that should take place.

Requirement

The formal requirement is now included in Regulation S-X, Rule 5-02-1, which reads as follows:

> "State separately (a) cash on hand and demand deposits; (b) funds subject to repayment on call or immediately after the date of the balance sheet required to be filed; (c) time deposits; and (d) other funds, the amounts of which are known to be subject to withdrawal or usage restrictions, e.g., as compensating balances or special purpose funds. The general terms and nature of such repayment provisions and withdrawal or usage restrictions shall be described in a note referred to herein. Funds subject to withdrawal or usage restrictions shall not be included under this caption unless they are reasonably expected to become available for current operations within one year." [Emphasis added.]

Definitions

For purposes of this requirement, a compensating balance is defined as any demand deposit (or any time deposit or certificate of deposit on which less than the market rate of interest is paid) carried by a corporation which either formally or informally is related to current borrowing arrangements by the corporation (or any other party) with a lending institution. Such arrangements would include both current borrowings and credit availability at the present time or in the future. Balances carried by a corporation at its own discretion with the expectation of assuring future availability of funds would not be included.

Form of Disclosure

The format for disclosure cannot be spelled out with precision since it will vary according to the factual situation involved. The rule calls for segregation on the face of the balance sheet, but there are many circumstances in which this will not be the most meaningful presentation and footnote disclosure would be preferred.

In general, when the terms of the compensating balance arrangement are formal and are described in connection with the terms of a particular lending agreement, balance sheet segregation is appropriate. Examples of this would include situations where a certificate of deposit must be held while a loan is outstanding or where a minimum balance must be maintained at all times while credit is extended or available. The fact that balances are legally subject to withdrawal would not be the determining factor in deciding what disclosure practice should be followed. An arrangement, however, where the balance required was expressed as an average might lead to footnote disclosure since the balance sheet date cash balance might bear no relationship to the requirement. Footnote disclosure should generally be sufficient when arrangements are informal.

The extent of disclosure required will also depend on the circumstances. In most cases, the terms of the arrangement should be described and the amount of the compensating balance disclosed. This may be expressed as an average balance and may be presented as a range if a single figure does not accurately reflect the situation. A general statement that such arrangements exist will not be satisfactory.

If arrangements during the year were materially different than the situation at year end, that fact should be disclosed. The impact of the compensating balance on the effective cost of bank financing should be reflected. If the compensating balance is maintained for the benefit of an affiliate, an officer, director or employee, or a third party, that fact should be disclosed, although no such mention in regard to affiliates is required in parent company only statements if the affiliate is included in the consolidated financial statements of the reporting entity.

Where a company is not in compliance with a compensating balance arrangement, that fact should generally be disclosed. If the arrangement is informal, however, and the bank has given no indication of applying sanctions to enforce it, disclosure of lack of compliance would ordinarily not be necessary.

In determining the materiality of compensating balances, the reference point should generally be the cash balance shown on the financial statements. Except in unusual circumstances, if compensating balances in the aggregate amount to 10 percent or more of that figure they should be considered material.

Measurement Problems

A number of problems arise in the process of measuring the amount of compensating balances. It is recognized that precision of measurement may not be practical, but that fact should not limit the disclosure of material arrangements. Since several of the problems of measurement occur frequently, and since it is desirable that they be similarly solved to assure uniformity of practice among companies, the following guidelines have been developed to assist registrants. It is recognized that every situation cannot be anticipated, and the need for judgment on the part of registrants and their auditors cannot and should not be avoided.

1. Float.--The balance shown on the bank's ledgers and the company's books will differ due to delays in presentment of checks and deposits in transit. The bank ledger balance is generally higher than the book balance. Since compensating balance arrangements are related to the bank's ledger balance, any "float" which regularly results should be deducted (or added) in computing the amount of compensating balance to be disclosed. Thus, the disclosed amount will relate to the book figure reported in the financial statements.

2. Compensation for other bank services.--Balances are maintained not only in connection with financing arrangements but also to compensate the bank for its account handling function and in some cases to pay for other services such as lock boxes and account reconcilement. Balances maintained for these purposes should not be included in the disclosed compensating balances. If a bank allows balances to serve both purposes, the balances should be considered as supporting financing for the purposes of this requirement.

3. Minimum operating balance.--All corporations require some minimum amount of cash on which to operate. The amount will depend upon the extent of seasonal and random fluctuation in short term cash demand as well as management judgment regarding necessary safety factors. It has been argued that this minimum operating balance should be subtracted from compensating balances since the maintenance of such a balance has no incremental cost to the borrower. For purposes of compensating balance disclosure requirements, such a subtraction is not appropriate. Not only is the measurement of such minimum operating balances highly subjective, but the concept of subtraction implies that the compensating balance is of secondary importance which is by no means apparent. It would be equally reasonable to say that operating funds are free of cost because compensating balances must be maintained.

4. Prior periods.--An attempt should be made to disclose compensating balances and their effect in the financial statements of the prior period(s) presented in comparative form. There will be some cases in which the determination of the existence of a compensating balance arrangement in a preceding period may not be possible; in such cases, that fact should be disclosed.

Responsibilities

The registrant is responsible for computing the effect of its compensating balance agreement(s) and and preparing the related financial statement disclosure. The auditor has the responsibility of satisfying himself that the disclosure is adequate and fairly reflects the arrangements.

When such arrangements exist, the computation would be facilitated and more readily substantiated if the borrower requests the lender to reply to a confirmation which sets forth the bases of their mutual understanding.

FEDERAL AGENCY RELATIONS
THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036
FEDERAL ADMINISTRATIVE ADVISER
HAMPTON A. RABON
202/467-4200

December 21, 1972

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The building (Bender) has another entrance on L Street, near 18th. Our board room is on the 7th floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 4:00 p.m. on Tuesday, January 30, 1973.

I am also enclosing for Chairman Burns' information a list of the members of the Government Borrowing Committee.

Sincerely yours,

Hampton A. Rabon

Hampton A. Rabon

Called 1/2/73 am

Encl.
HAR:fmm

AGENDA
GOVERNMENT BORROWING COMMITTEE
The American Bankers Association
January 30 - 31, 1973

Tuesday, January 30, 1973

9:00 a.m.	Committee meets in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. (7th Floor) 1/
10:00 a.m.	Committee to review slides in Room 2334 of the Treasury building 2/
11:00 a.m.	Committee to meet with Under Secretary for Monetary Affairs, Mr. Paul Volcker in Room 4426 of the Treasury building for backgrounding. 3/
12:30 p.m. 1:00 p.m.	Refreshments Luncheon Cabinet & Pan American Rooms, Mayflower Hotel
2:30 p.m.	Committee to reconvene in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. (7th Floor) 1/ Chairman Burns (Federal Reserve Board) will meet with the Committee at 4:00 p.m.
6:30 p.m. 7:00 p.m.	Cocktails Dinner Chinese Room, Mayflower Hotel

Wednesday, January 31, 1973

9:15 a.m.	Committee to reconvene in Board Room of The American Bankers Association 1120 Connecticut Avenue, N.W. 1/
10:00 a.m.	Committee to report its recommendations to Secretary Shultz and the Treasury Financing Group in Room 4426 of the Treasury building 3/

1/ This location is on Connecticut Avenue across from the Mayflower Hotel

2/ Treasury will use the regular projection room on the second floor on southwest corner of building (corner facing the Mall and the White House)

3/ Conference with under Secretary for Monetary Affairs and report to the Secretary of the Treasury will be held in the 4th floor Conference Room on west side of building near the center elevators opposite the White House.

<u>GOVERNMENT BORROWING COMMITTEE</u>

Chairman: Robert M. Surdam
Chairman and Chief Executive Officer
National Bank of Detroit
RPA Box 116
Detroit, Michigan 48232

Alfred Brittain III
President
Bankers Trust Company
P. O. Box 318, Church Street Station
New York, New York 10015

Robert E. Bryans
President
First National Bank of Casper
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Casper, Wyoming 82601

Willard C. Butcher
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St. Louis, Missouri 63118

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Chairman
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Houston, Texas 77001

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Chairman and Chief Executive Officer
Northwestern National Bank
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Philadelphia, Pennsylvania 19109

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D. Thomas Trigg
Chairman and Chief Executive Officer
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Boston, Massachusetts 02106

Walter B. Wriston
Chairman
First National City Bank
399 Park Avenue
New York, New York 10022

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Senior Vice President
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Charlotte, North Carolina 28201

EX OFFICIO

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President
The First National Bank
P.O. Box 5808, Terminal Annex
Denver, Colorado 80217
(President, ABA)

Willis W. Alexander
Executive Vice President
The American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036

Rex J. Morthland
Chairman of the Board
The Peoples Bank and Trust Company
of Selma
P.O. Box 799
Selma, Alabama 36701
(President-Elect, ABA)

Douglas R. Smith
President and Chairman of the Board
National Savings & Trust Company
Washington, D.C. 20005
(Chairman, ABA Savings Bond Committee)

Allen P. Stults
Chairman and Chief Executive Officer
American National Bank & Trust Company
P.O. Box DD
Chicago, Illinois 60690
(Past President, ABA)

Hampton A. Rabon
A.B.A. Director (202/467-4200)

January 1973

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

FEDERAL ADMINISTRATIVE ADVISER
WILLIAM T. HEFFELFINGER, CONSULTANT
202/467-4200

October 5, 1971

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mrs. Mallardi:

There is enclosed a copy of the agenda for the October 26-27, 1971, meeting of the Government Borrowing Committee. You will note we will expect Governor Burns at 4:00 p.m.

Sincerely,

W. T. Heffelfinger

W. T. Heffelfinger

WTH: TB

Enclosure

AGENDA
GOVERNMENT BORROWING COMMITTEE
THE AMERICAN BANKERS ASSOCIATION
October 26-27, 1971

Tuesday, October 26, 1971

9:15 a.m.	NOTE	Committee meets in Board Room of The American Bankers Association 1120 Connecticut Avenue, N. W. (7th Floor) 2/
10:00 a.m.		Committee to review slides in Room 2334 of the Treasury 1/
11:00 a.m.		Committee to meet with Under Secretary for Monetary Affairs, Mr. Paul Volcker, in Room 4426 of the Treasury Department for backgrounding 1/
12:30 p.m.		Refreshments - Mayflower Hotel Maryland Room (2nd Floor)
1:00 p.m.		Luncheon - Mayflower Hotel Pennsylvania Room (2nd Floor)
2:30 p.m.		Committee to reconvene in Board Room of The American Bankers Association Chairman Burns (Federal Reserve Board) will meet with the Committee at 4:00 p.m.
6:30 p.m.		Cocktails - Maryland Room
7:00 p.m.		Dinner - Pennsylvania Room Mayflower Hotel

Wednesday, October 27, 1971

8:30 a.m.	Committee to reconvene in Board Room of The American Bankers Association, 1120 Connecticut Avenue, N. W.
9:15 a.m.	Committee to report its recommendations to Secretary Connally and the Treasury Financing Group in Room 4426 of the Treasury Department 1/

1/ Treasury will use the regular projection room on the second floor on southwest corner of building (corner facing the Mall and the White House). Conference with Under Secretary for Monetary Affairs and report to the Secretary of the Treasury will be held in the 4th floor Conference Room on west side of building near the center elevators opposite the White House.

2/ This location is on Connecticut Avenue across from the Mayflower Hotel.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date ~~April 30, 1971~~ April 29, 1971

To Chairman Burns

From Andrew W. Hogwood, Jr.

Subject: Meeting of the International Banking Committee of the A.B.A.--May 3, 1971

On Monday, May 3, 1971 at 4:30 p.m., there will be a meeting in the Board Room of the International Banking Committee of The American Bankers Association with available members of the Board and certain staff. You are invited to attend this meeting and we would appreciate your letting us know (Ext. 3326) whether or not you plan to attend.

There is attached, for your information, a public relations release from the A.B.A. concerning the International Banking Committee, as well as a separate list of the Committee members.

Attachments

THE AMERICAN BANKERS ASSOCIATION

PUBLIC RELATIONS DEPARTMENT • 815 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20006

CONTACT: Pat Kane
(202) 298-9090

RELEASE FOR A.M.'s
Friday, February 26, 1971

A.B.A. NAMES INTERNATIONAL BANKING COMMITTEE

WASHINGTON, D.C., Feb. 26 -- The American Bankers Association has formed an International Banking Committee to help its member banks deal with increasing activity in world-wide financial matters. The 12-member committee will be chaired by Stephen C. Eyre, senior vice president of the First National City Bank, New York.

Announcing formation of the committee, A.B.A. President Clifford C. Sommer said that such a committee is needed because increasing numbers of American banks are becoming "substantially and significantly involved in international banking."

"There is a definite need for the Association to have a standing committee of experienced bankers who can speak out on issues that importantly affect the ability of the banks to operate in this field," Sommer said. "The committee will be a small working group dealing with the ever-increasing problems affecting today's international scene, particularly in the political and legislative spheres."

The committee will be responsible for the operations of the new International Banking School, planned for August 1-14 at the University of Colorado, Boulder.

Members of the International Banking Committee are:

Arthur Bardenhagen Irving Trust Company, New York; Joseph A. Carrera, Bank of America, San Francisco; Roger N. Christiansen, Seattle-First National Bank; Richard H. Cummings, National Bank of Detroit; Larry V. DeBell, First

(More)

National Bank, Denver; Robert C. Howard, First City National Bank, Houston; Alfred F. Miossi, Continental Illinois National Bank and Trust Company, Chicago; Charles H. Murray, Mercantile Trust Company, St. Louis; James W. Oliphant Jr., The Merchants National Bank, Mobile; Robert B. Palmer, Philadelphia National Bank and I. Barry Thompson, Central National Bank, Cleveland.

Roger B. Hawkins of the A.B.A. staff will serve as director of the committee.

#

(Revised attachment to memo of April 29, 1971 on meeting of the International Banking Committee of the A.B.A.)

INTERNATIONAL BANKING COMMITTEE
OF
AMERICAN BANKERS ASSOCIATION

Chairman

Stephen C. Eyre
Senior Vice President
First National City Bank
New York City

Arthur Bardenhagen
Vice President
International Division
Irving Trust Company
New York City

Joseph A. Carrera
Senior Vice President
International
Bank of America
San Francisco

Roger N. Christiansen
Vice President
Seattle-First National Bank
Seattle

Richard H. Cummings
Senior Vice President
National Bank of Detroit
Detroit

Larry V. DeBelle
Senior Vice President and Director of Personnel
First National Bank
Denver

Robert C. Howard
Senior Vice President
First City National Bank
Houston

Alfred F. Miossi
Senior Vice President
International Banking Department
Continental Illinois National Bank and Trust Company
Chicago

Charles H. Murray
Vice President
International Banking
Mercantile Trust Company
St. Louis

James W. Oliphant, Jr.
Vice President
Foreign Department
The Merchants National Bank
Mobile

Robert B. Palmer
Vice President and Manager
International Banking Division
Philadelphia National Bank
Philadelphia

I. Barry Thompson
Vice President and Manager
International Division
Central National Bank
Cleveland

Roger B. Hawkins of the ABA staff will serve as director of the committee.

BH-2J02

THE AMERICAN BANKERS ASSOCIATION 815 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20006

WILLIS W. ALEXANDER
EXECUTIVE VICE PRESIDENT

February 11, 1971

Dear Dr. Burns,

On behalf of the officers of The American Bankers Association, it is my pleasure to invite you to attend the annual Spring Meeting of our Executive Council at The Greenbrier, White Sulphur Springs, West Virginia, on April 21 - 24, 1971.

An official announcement of this meeting, together with an application for hotel accommodations, is enclosed.

Please let me know if you will be able to attend our meeting.

Sincerely yours,

Willis Alexander

The Honorable Arthur F. Burns, Chairman
Board of Governors of the Federal Reserve System
21st Street and Constitution Avenue, N.W.
Washington, D. C. 20551

"No"
called
am

FROM ______________________________
PLEASE TYPE OR PRINT

TITLE ______________________________

BANK ______________________________

CITY ____________________ STATE ______________

I ☐ do / ☐ do not plan to attend the Spring Meeting.

My wife ☐ will / ☐ will not accompany me.

My first name as it
should appear on badge: ______________________

Wife's first name as it
should appear on badge: ______________________

Please check if you think your wife will
participate in:

☐ Ladies' Golf Tournament

☐ Ladies' Putting Contest

☐ Ladies' Bridge and Canasta

* * * * * *

In order for us to print special badges and include names in the registration list, this card must be returned prior to March 15, 1971.

Mr. Robert Cotton

The American Bankers Association

1120 Connecticut Avenue, N.W.

Washington, D. C. 20036

THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

WILLIS W. ALEXANDER
EXECUTIVE VICE PRESIDENT

February 11, 1971

Called
Ret'
DM

ANNOUNCEMENT OF THE SPRING MEETING OF THE

A.B.A. EXECUTIVE COUNCIL AND OTHER DESIGNATED COMMITTEES

This is the official notice of the Spring Meeting of the Executive Council and other designated committees of The American Bankers Association which will be held at The Greenbrier, White Sulphur Springs, West Virginia, Wednesday, April 21 through Saturday, April 24. Since this is a closed meeting, notice is being sent to you as a member of the Executive Council, Administrative Committee, Management Committee, or one of the following groups which will be meeting during the Spring Meeting:

- Banking Education Committee
- Credit Policy Committee
- Economic Policy Committee
- Federal Legislative Committee
- Foundation for Education in Economics - Board of Trustees
- MAPS Planning Committee
- Marketing/Savings Division Executive Committee
- National Bank Division Executive Committee
- Organization Committee - Regional Vice Presidents
- Retirement Committee
- State Association Section
- State Bank Division Executive Committee
- State Legislative Committee
- Steering Committee for Strengthening State Banking Law and Supervision
- Task Force on A.B.A. Organization
- Trust Division Executive Committee
- Urban Affairs Committee

The Spring Meeting begins officially on Wednesday, April 21. The committees listed above, except for the Federal Legislative Committee, will meet in afternoon sessions on Wednesday and/or Thursday. You will receive a special notification from the staff directors of your committees as to the time and place if you are expected to attend any of these meetings.

The Federal Legislative Committee will meet in all day session on Friday, April 23. Three sessions of the Executive Council will be held on the mornings of Wednesday, Thursday, and Saturday, April 21, 22 and 24. Everyone at the Spring Meeting is expected to attend both the Executive Council and the Federal Legislative Committee meetings.

Hotel Reservations

Your hotel reservation should be made directly with the hotel as soon as possible, but not later than March 15, on the enclosed Application for Hotel Accommodations. The daily rates at The Greenbrier for the meeting are listed on this form. If you are willing to share a twin-bedded room with some other member, it will be appreciated by the hotel. It is the hotel's policy to refrain from arbitrarily assigning guests to share a room.

Hotel Reservations (continued)

We regret that it is necessary to ask you not to invite family or guests to accompany you to the Spring Meeting if they require a separate bedroom, since our Spring Meeting taxes the capacity of The Greenbrier to house those who are eligible to attend. The hotel, of course, will place a cot in a bedroom for an immediate family member.

To permit utilization of all available space, it is of utmost importance that the hotel be informed immediately of cancellations and changes in arrival time and departure. Without such notification, availability of rooms on arrival cannot be assured. Reservations for rooms not occupied on dates specified are automatically cancelled.

Registration

The A.B.A. meeting registration desk will be located on the lower lobby floor of The Greenbrier near the hotel registration desk. You may pick up your badge and program at this desk.

Transportation

No special trains for the meeting will go to or return from White Sulphur Springs, nor are Pullman cars available. There is only coach service on the regular trains. Members coming from the West will have to go to St. Louis or Cincinnati to make train connections to White Sulphur Springs.

The new Greenbrier Valley Airport is now in operation. It is approximately fourteen miles from White Sulphur Springs and is serviced by Piedmont Airlines on a regular schedule. Airport Limousine service is provided to the hotel.

If the time schedule is not satisfactory, you can get to White Sulphur Springs by flying to Roanoke or Charleston. Air-taxis operated by Greenbrier Airlines fly during daylight hours between these airports and the hotel. (Mr. Charles O. Tate, Jr., P. O. Box G, White Sulphur Springs, West Virginia 24986, or phone 304-536-1234.)

The hotel does not send limousines or buses to meet planes at the Charleston Airport.

Those interested in ground transportation service from/to the Roanoke Airport should complete and return the enclosed questionnaire to the hotel with your request for hotel accommodations. Changes in flight arrivals cannot be accommodated by the hotel if received later than April 10.

It is suggested that those who do not plan to drive make their transportation reservations as soon as possible. Consult your local airline or railroad representative for full information.

Authorized Expense Allowance

Claims for expenses should be presented only by those who have attended all meetings of the Executive Council and meetings of committees of which claimant is a member. A maximum of five days will be allowed for those invited to attend the April 20 Administrative Committee meeting, four days for those who are members

Authorized Expense Allowance (continued)

of committees meeting on Wednesday, Thursday, and Friday, and a maximum of four days if a member only of the Executive Council.

All claims must be submitted within sixty days following the meeting in order to be honored. An expense report form will be included in the registration kit.

1. Transportation

   Direct route commercial airplane fare

   a. To Roanoke airport, plus hotel bus or small plane fare between Roanoke airport and White Sulphur Springs.

   b. To Charleston airport, plus small plane fare (no bus available) between Charleston Airport and White Sulphur Springs.

   c. Commercial airplane fare to Greenbrier Valley Airport.

   Direct route railroad fare. If Pullman space is used for part of the trip, this portion of the fare should not exceed the cost of roomette accommodations.

   Auto travel, which will be reimbursed as follows:

   a. For trips exceeding one day's driving (more than 500 miles) to or from destination -- an amount equal to the cost of either direct air or direct rail fare, whichever is lower.

   b. For trips not exceeding one day's driving (500 miles or less) to and from destination -- 10¢ per mile plus tolls.

   c. For driving to and from air or rail connections -- 10¢ per mile plus tolls and parking.

2. Allowance for expenses en route: $10 per day if by air or rail; $10 each way by auto.

3. Hotel allowance: $42.50 per day for hotel expenses not exceeding five days -- for members of Administrative Committee; four days -- for members of committees which are meeting at The Greenbrier; and four days -- if member only of Executive Council, provided members have attended meetings on all days claimed.

   Any other expenses are to be borne by the member himself. The Association will not reimburse him for any expenses incurred by or for his wife.

Meeting

Management Committee	Monday	Dinner
Administrative Committee	Tuesday	All Day
All other committees (except Federal Legislative)	Wednesday and Thursday	Afternoon
Federal Legislative Committee	Friday	All Day
Executive Council	Wednesday, Thursday, and Saturday	Morning

Entertainment

Ladies' Bridge and Canasta Party	Wednesday	Afternoon
Ladies' Putting Contest	Thursday	Afternoon
Men's Golf Tournament	Thursday	Afternoon
President's Reception	Thursday	Evening
Ladies' Golf Tournament	Friday	Morning

Men and women interested in playing tennis should register their names at the Tennis Club after arrival at the hotel. Games will be arranged by the Tennis Pro.

Please complete the enclosed and return as soon as possible.

We look forward to having you with us at The Greenbrier.

Cordially,

Will

Encl. (4)
Hotel Request
Transportation Request
Card
Ladies' Program

SPRING MEETING OF THE A.B.A. EXECUTIVE COUNCIL
AND OTHER DESIGNATED COMMITTEES
April 21-24, 1971

Transportation for Air Travelers

Transportation from and to Airports

FROM CHARLESTON: The Charleston Airport is too far away for the Hotel to conveniently provide ground transportation. However, Greenbrier Airlines air-taxi service has flights available during daylight hours between Charleston and The Greenbrier. Contact the Airline direct for reservations. (Greenbrier Airlines phone: 304-536-1234)

FROM ROANOKE: Greenbrier Airlines air-taxi service may also be used from and to the Roanoke Airport. The hotel will provide ground transportation from this Airport if the form below is returned with your application for hotel accommodations.

Because of the complexities involved in meeting persons arriving on various flights, the hotel must have at least ten days' notice should it become necessary to change your arrival time. The hotel will not be able to arrange to meet you if specific flight arrival information is not received by April 10.

FROM GREENBRIER VALLEY AIRPORT: This Airport is approximately fourteen miles from the Hotel. Airport limousine service is available to the hotel.

- -

(RETURN TO HOTEL IF GROUND TRANSPORTATION FROM AND TO ROANOKE AIRPORT IS DESIRED)

TO: Reservation Manager
The Greenbrier
White Sulphur Springs, West Virginia 24986

SPRING MEETING OF THE A.B.A. EXECUTIVE COUNCIL - April 21 - 24, 1971

I would be interested in ground transportation to The Greenbrier from the Roanoke Airport for myself ( ), my wife and myself ( ), arriving at Roanoke Airport on____________________, _______(a.m.)(p.m.). Flight #________Airline________.

I ( ) We ( ) would also like ground transportation back to the Roanoke Airport on____________________________________. Flight #________Airline_______, leaving at____________________(a.m.) (p.m.).

NAME____ TITLE________________________
(Indicate "Mr. and Mrs." if wife is accompanying you)

BANK____ P. O. BOX __________________

CITY_________________________STATE____________________ZIP CODE_______________

APPLICATION FOR HOTEL ACCOMMODATIONS

Please fill out this application form completely and mail, prior to March 15, to:

Reservation Manager
The Greenbrier
White Sulphur Springs, West Virginia 24986

I am authorized to and shall attend the Spring Meeting of the Executive Council of The American Bankers Association, April 21 – 24, 1971. Please enter my application for the following:

________ TWIN-BEDDED ROOM AND BATH FOR DOUBLE OCCUPANCY – $75. Will share with ☐ Wife ☐ Committeeman named below*

________ DOUBLE ROOM AND BATH FOR SINGLE OCCUPANCY – $50.

________ SINGLE ROOM AND BATH – $37.50 (Limited number available.)

________ SUITE (Parlor, Twin-Bedded Room and Bath) $________. Parlors are $20, and $30, in addition to the above twin-bedded room rate. (*See below.)

________ SUITE (Parlor, Two Twin-Bedded Rooms and Two Baths) $________. Parlors are $20, $30, and $35, in addition to the above rate per two twin-bedded rooms. (*See below.)

________ COTTAGE (A limited number available, accommodating from 4 to 8 persons.) Rates upon request. (*See below.)

Above rates are quoted on a daily basis, American Plan, including three meals.

Please indicate:

	DATE	BEFORE BREAKFAST	AFTER BREAKFAST	AFTER LUNCH	AFTER DINNER
ARRIVAL..........					
DEPARTURE....					

WILL ARRIVE BY: TRAIN ☐ AUTO ☐ PLANE ☐

*Above accommodations to be shared with: ____________________
(Please indicate if arrival and departure times differ.) ____________________
____

NAME____________________ TITLE__________
(PLEASE PRINT OR TYPE. INDICATE "MR. & MRS." IF WIFE IS ACCOMPANYING YOU.)

BANK ____________________

ADDRESS ____________________ P.O. BOX NO.__________

CITY ____________________ STATE __________ ZIP CODE __________

____________________ 1971

INFORMATION FOR

LADIES ATTENDING SPRING MEETING

The Greenbrier
White Sulphur Springs, West Virginia

We invite you to join in any and all of the following events which are being planned for your stay at The Greenbrier during the Executive Council Spring Meeting, April 21 - 24, 1971.

WEDNESDAY, APRIL 21 — 2:30 p.m.

Bridge and Canasta Party - Plan to make up your own table or the Committee will be glad to assist you. Table and door prizes will be awarded.

THURSDAY, APRIL 22 — 9:30 a.m.

Golf Get Together - Stop in for a cup of coffee and talk over plans with the Ladies' Golf Committee.

2:30 p.m.

Putting Contest - Putting Green - don't forget, golf or walking shoes must be worn.

FRIDAY, APRIL 23 — 9:00 a.m.

Golf Tournament - The Ladies' Golf Committee will handle arrangements for the tournament. Upon your arrival in White Sulphur Springs, please furnish the information requested on the card in your folder and return to the A.B.A. Office, or bring it along to the Golf Get Together on Thursday morning.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 22, 1971

To Chairman Burns

Subject: Treasury May Financing

From Government Finance Section

On April 28, the Treasury will announce the details of its May financing operations. In addition to refunding $5.8 billion of publicly held maturing issues, the Treasury is expected to announce at least the dimensions of its near-term new money requirements. Board staff estimates indicate that these requirements may total $2 to $3 billion over and above any funds needed to cover attrition in the refinancing. Even with sizeable attrition, payment on the cash operation will probably not be needed until late May or early June. Thereafter, unless the critical April income tax payments (now in process of collection) fall short of estimates, or unless spending runs higher than presently anticipated in the closing weeks of the fiscal year, no further Treasury cash financing is likely to be needed until July.

In deciding the terms of its May financings the Treasury must consider its plans in the larger context of overall borrowing requirements during the rest of the calendar year. These requirements will be unusually heavy, representing in addition to the refunding of about $7.8 billion of publicly held maturing coupon issues the need to raise an expected $23 billion of new money.

Basic issue

The basic question facing the Treasury with regard to the upcoming May financing is whether it can afford to seek significant debt lengthening at this juncture, given the still fragile state of the economic recovery, balance of payments difficulties and the recent general weakness of note and bond markets. Understandably, the Treasury would like to take advantage of its new leeway to issue long-term debt as soon as the time is propitious. This desire stems both from the persistent shortening of the average maturity of the marketable debt in recent years and from the massive deficit financing job that lies ahead.

Against this essentially housekeeping desire for debt lengthening, however, one must balance the associated risks of encouraging further undesired shifts in the structure of interest rates. With note and bond yields having recently risen in response to the firming of business news and money market conditions, any offering of long-term debt at this time of heavy continuing corporate and municipal bond calendars would obviously risk an accentuation of the recent advance in long-term rates, with possible negative consequences for capital spending. At the same time, such debt funding would tend to exert downward pressure on Treasury bill rates, possibly reversing some of the recent narrowing of spreads between U. S. and foreign short-term rates, with consequent marginal detriment to U. S. balance of payments goals.

Alternative financing approaches

With the announcement of terms on the May refinancing only a week away, the range of ideas among debt management experts as to the appropriate Treasury strategy is unusually wide. To some extent this diversity appears to reflect differing judgements as to the degree of fragility still remaining in current market conditions, and the extent to which note and bond yields may already be reaching a new relatively stable equilibrium at their current higher levels. While virtually all experts recommend that the Treasury exercise considerable caution in undertaking debt extension at this time -- and hence have ruled out the idea of an advance refunding -- some still believe that there is leeway for lengthening, even beyond the seven year maturity range; whereas others would restrict new debt offerings entirely to relatively short maturities.

Because of the greater than usual diversity of opinion about the appropriate course for Treasury action, no market consensus has as yet crystallized on any particular refinancing approach. Among the various possibilities that have been suggested, the following are illustrative of the range of thinking.

(1) Among the experts seeking some modest use of the Treasury's new leeway to issue long-term debt, one suggested approach is a "rights-cash" strategy. Holders of the maturing May issues would be given the option to exchange into either a 10 to 12 year bond or a 3 to 5 year note. The bond would be priced with a view to limiting its size to about $750 million in order to minimize competitive pressures on other capital markets. The "rights" exchange would then be followed in the latter part of May with a cash auction of a short-term note designed to cover attrition in the refunding and (depending on the size of the attrition) to pick-up the bulk of the $2 to $3 billion of remaining net new money needs.[1/]

1/ A more cautious alternative, also designed to use the new Treasury leeway, would offer a 10-15 year bond and an 18-month note as exchange options in the refunding and later raise needed cash in the bill market.

(2) An alternative strategy at the opposite end of the opinion spectrum would limit the "rights" exchange to a single 21 month note and cover subsequent cash needs entirely in the Treasury bill market, presumably through a September or December tax bill supplemented by additions to regular bills (possibly another strip). The objective of this approach would be to minimize upward pressures on longer-term interest rates while tending to bolster short-term rates.

(3) A third strategy would fall between the first two. It would avoid new debt in both the over 7 year maturity range and the 6 to 7 year maturity range that has been regularly tapped in recent refinancings. It would offer some debt extension, however, through a two-pronged "rights" exchange -- say an 18 month note as an anchor issue and an intermediate term note around the 4 year maturity area. Sebsequent cash needs would be met largely in the bill market.

Comment on alternatives

The first of the above alternatives would clearly create the greatest risk of aggravating the rise in long-term rates. Although this alternative is advanced as a relatively modest approach to debt lengthening, only an intermediate and long-term issue would be offered in the exchange. Consequently, unless cash redemptions were very large, the degree of debt extension accomplished would be substantial. Since the Treasury could be expected to price the new issues to obtain a creditable exchange, the odds seem rather high that this financing approach would extend rate advances significantly further in the Government securities market and possibly in the corporate and municipal markets as well. To risk such rate developments at this stage of the economic recovery seems unjustified.

Offering of a 10-12 year bond at this juncture would create an especially difficult pricing problem for the Treasury in any event. Over and above the pricing complications arising from the half decade absence of any Treasury debt offerings with maturities beyond 7 years, the desire to insure that exchanges into any long-term offering would be quite modest could be accomplished only through delicate pricing -- given the "rights" form of the refinancing.

In view of the high policy priority now being accorded the avoidance of both higher long-term rates and lower short-term rates, there is much to be said for electing approach two above -- i. e. offering a single new short-term note issue in a "rights" exchange. From a debt housekeeping standpoint, however, such an approach would have its drawbacks. The new issue would be large and possibly create debt refinancing problems for the future, although at the 21 month maturity slot no other issues are presently outstanding (as the attached table shows). Moreover, adoption of this approach would do very little to stretch out existing marketable debt in advance of the period of massive deficit financing that lies ahead. And cash redemptions might be higher than in the case where "rights" holders could choose between two exchange options. Higher attrition could have effects on very short-term interest rates as redeemed funds were re-inacted at least tenuously in money market instruments.

A refinancing approach along the lines of the third alternative noted above might represent a reasonable compromise between the objectives of alternatives one and two. Offering of new exchange options in the 18 month and 4 year maturity slots would accomplish some modest debt lengthening, but the average maturity of the new issues would probably be short enough to avoid serious competition with funds flowing into longer-term debt markets. In fact, announcement of a refunding package along the lines proposed in alternative three (and even moreso under alternative two) might very well be followed by some decline of yields on longer-maturity Treasury issues.

A "rights" exchange even one which stresses short-term offerings, might generate some temporary downward pressure on Treasury bill rates -- on swaps by investors not wanting the new issues -- at a time when other seasonal influences were also exerting similar pressures. Early announcement of Treasury plans to cover its late May cash needs in the Treasury bill market might, therefore, be helpful in moderating the extent of any further bill rate declines.

Adoption of the alternative three approach would not rule out the possibility of a Treasury offering of long-term bonds at a later date. While the interest cost of a later long-term offering might very well be higher than now, this is not wholly clear; bond markets have been especially sensitive recently, but the atmosphere could calm at a later point as heavy corporate bond offerings moderate. One alternative the Treasury might wish to consider in offering long-term bonds is a series of modest-sized, cash auctions using the Dutch technique (i.e. all bids would be allotted at the stop-out price in order to encourage wider participation by non-professionals). Such auctions could become a regular debt-lengthening feature of Treasury financing operations.

Recommendation of
Government Finance Section

The Government Finance Section recommends against the adoption of any debt refinancing approach seeking the degree of debt extension involved in alternative one above. It would prefer to stay short, as in either alternative two or three, but believes that the amount of debt extension involved in alternative three would not be too risky -- if the Treasury sees the need to meet at least a part of its debt housekeeping objectives at this time. In view of the recent unsettled state of the Government securities market, it is too early to suggest any precise pricing specifications for a Treasury operation of the alternative three type.

Chairman Burns

Table 1

Treasury Securities Maturing
At Quarterly Refunding Periods

As of February 28, 1971
(In millions of dollars)

		Held by Public
1971 -	May	5,810
	Aug.	4,190
	Nov.	3,688
1972 -	Feb.	4,796
	May	5,337
	Aug.	3,872
	Nov.	(2,328) due in Dec.
1973 -	Feb.	--
	May	3,198
	Aug.	4,879
	Nov.	3,846
1974 -	Feb.	5,519
	May	6,568
	Aug.	4,816
	Nov.	4,046
1975 -	Feb.	3,490
	May	2,309
	Aug.	5,471
	Nov.	--
1976 -	Feb.	882
	May	1,973
	Aug.	2,727
	Nov.	--
1977 -	Feb.	2,356
	May	--
	Aug.	1,634
	Nov.	--
1978 -	Feb.	5,407
	May	--

Note: Issues maturing between refunding dates are entered at nearest preceding quarterly date.

Chairman Burns

Table 2

Ownership of Maturing Treasury Securities
As of February 28, 1971
(In millions of dollars)

	Total	Held by Public	Comm. banks	Savings instits.	Insurance Companies	All Other 1/
5-1/4 of 5/15/71	4,265	2,370	1,160	78	54	1,078
8 of 5/15/71	4,176	3,440	1,663	81	79	1,617

1/ Reporting business corporations, which account for around 50 per cent of total corporate holdings, held 44 of the 5-1/4's and 18 of the 8's.

NOTE: numbers for commercial banks and insurance companies have been blown-up to represent full coverage.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 26, 1971

To Chairman Burns

Subject: ABA Visit of April 27.

From John Rippey JR

One of the purposes of the visit by a delegation representing the American Bankers Association to see you is to discuss in general terms the draft of a proposed bill to regulate billing practices of credit card issuers. The draft has been prepared by a special working group within ABA as an alternative to S. 652, a bill introduced early this year by Sen. Proxmire. The Proxmire bill, like ABA's, would cover all credit card issuers--retailers, oil companies, etc.--as well as banks. It is ABA's view that S. 652 would be unnecessarily restrictive and would be particularly burdensome to banks because of the special nature of the bank credit card industry.

Like Proxmire's, the bill drafted by ABA would rely to a considerable degree on the willingness of the Federal Reserve Board to take on the additional burden of administering regulations under the bill. In several instances, the explanation accompanying the draft notes that a particularly knotty problem can be resolved by allowing the Board the latitude to prescribe suitable regulations. Under either bill, millions of transactions across the country would be subject to regulation. A huge amount of mail would be generated and an enormous amount of staff time would be required to get the regulations underway. The underlying reason for making the Board the administrator, according to the explanation, seems to be that bank credit cards represent the vanguard of a new payments mechanism, replacing cash and checks. The cards are only secondarily a means of extending credit.

The draft also argues that it would be wrong for regulation of bank cards to be splintered between banking and non-banking (read Federal Trade Commission) agencies. In point of fact, both the ABA draft and the Proxmire bill would give rule-writing authority to the Board. The rationale for this grant in the Proxmire bill is simply that the purview of the Senator's subcommittee extends only as far as the financial supervisory agencies. A bill along the lines of S. 652, but giving rule-writing authority to FTC, would probably be referred to the Senate Commerce Committee, away from Proxmire's grasp.

The Board has been asked to report on S. 652, and the staff is now working up a draft for consideration by the Board. It is probably fair to say that, by and large, the staff's suggestions for modifications of S. 652 would not be greatly different from the alternatives set forth in the ABA draft. The Board has not been asked by Sen. Proxmire to comment on the ABA draft, and, in fact, no bill embodying the draft has been introduced.

S. 652 is a much more extreme bill than one which Sen Proxmire introduced last year. The reason for this radical turn may be that he is feeling the effects of competition from FTC and the House Small Business Committee. Both had credit cards under study last year, and, toward the end of the year, FTC had proposed stiff rules for credit card issuers as a new trade practice rule. This rule would have applied to bank credit cards, at least arguably, and bankers were very much disturbed by this incursion into heretofore exempt territory. Thus the bankers are looking to Sen Proxmire to pass a bill which will clearly indicate that the Board--and not FTC--has power to regulate bank credit cards.

FTC announced in January that it was withdrawing its proposed trade rule pending the outcome of Congressional action on S. 652.

April 27, 1971

TO: Chairman Burns

FROM: Robert C. Holland

Following are clues just relayed to me by Paul Wren of the ABA Government Borrowing Committee with whom you will be meeting at 4:00 p.m. this afternoon, concerning the key questions they are likely to raise for discussion with you.

1) Current interest rate trends, including particularly the recent prime rate increase (Treasury spokesmen have been quite critical of this in private conversations with this group; the bankers feel the Treasury is being a little hard on them, are quite conscious of the fact that the Federal Reserve has made no statement and are wondering how you feel about the prime rate increase.).

2) Federal Reserve policy--specifically, is the recent rate of growth in M_1 too high?

3) Concern with the state of our balance of payments (They will want to express concern, and will be interested in your feeling.).