LIBRARY
ROOM 5030
DEC 15 1983
TREASURY DEPARTMENT

Treas.
HJ
10
.A13P4
v. 245

U.S. Dept. of the Treasury.

T: PRESS RELEASES

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release
Friday, April 9, 1982

Contact: Stephen Hayes
566-2041

Treasury Designates American Airways Charter, Inc.
as a Cuban National

The Department of Treasury announced today that it had designated American Airways Charter, Inc., a Florida charter travel service handling tourists flights to Cuba, as a Cuban "national" under the Cuban Assets Control Regulations. For purposes of the Treasury embargo regulations, such designated nationals are treated the same as other engaging in any financial transaction with the firm, and the firm's assets in the United States are blocked.

The designation of American Airways Charter, Inc. was based on a finding that the firm is controlled by Cuba and has assumed the operation of another Cuban-controlled firm, Travel Services, Inc., which had earlier been designated by Treasury and ordered to cease operations in the United States. No Cuban firm is authorized to maintain an office or business operation in the United States.

Treasury has designated over forty firms and individuals as either controlled by Cuba or representing Cuban interests.

R-721

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-204

FOR IMMEDIATE RELEASE April 12, 1982

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 4,713 million of 13-week bills and for $ 4,702 million of 26-week bills, both to be issued on April 15, 1982, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 15, 1982			:	26-week bills maturing October 14, 1982		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.756	12.833%	13.45%	:	93.508	12.841%	13.92%
Low	96.750	12.857%	13.47%	:	93.464	12.928%	14.02%
Average	96.752	12.849%	13.47%	:	93.479	12.899% 2/	13.99%

Tenders at the low price for the 13-week bills were allotted 80%.
Tenders at the low price for the 26-week bills were allotted 15%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 59,030	$ 44,345	:	$ 84,260	$ 65,260
New York	13,347,440	3,944,665	:	10,482,525	3,340,475
Philadelphia	89,995	39,995	:	76,180	76,180
Cleveland	58,350	40,765	:	105,960	84,960
Richmond	44,695	40,045	:	51,640	47,640
Atlanta	62,315	58,030	:	54,915	52,415
Chicago	1,091,330	68,150	:	812,045	199,045
St. Louis	42,785	29,255	:	30,015	24,015
Minneapolis	21,905	9,405	:	27,030	27,030
Kansas City	54,690	50,810	:	47,735	43,945
Dallas	28,490	23,490	:	20,100	20,100
San Francisco	716,385	64,845	:	928,905	388,405
Treasury	299,130	299,130	:	332,615	332,615
TOTALS	$15,916,540	$4,712,930	:	$13,053,925	$4,702,085
Type					
Competitive	$13,635,600	$2,431,990	:	$10,863,445	$2,511,605
Noncompetitive	1,085,205	1,085,205	:	975,380	975,380
Subtotal, Public	$14,720,805	$3,517,195	:	$11,838,825	$3,486,985
Federal Reserve	$ 1,026,535	$1,026,535	:	$ 1,000,000	$1,000,000
Foreign Official Institutions	169,200	169,200	:	215,100	215,100
TOTALS	$15,916,540	$4,712,930	:	$13,053,925	$4,702,085

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 12.904%.

R-722

FOR IMMEDIATE RELEASE APRIL 12, 1982

The Treasury announced today that the 2-1/2 year Treasury yield curve rate for the five business days ending April 12, 1982, averaged 14.35 % rounded to the nearest five basis points. Ceiling rates based on this rate will be in effect from Tuesday, April 13, 1982 through Monday, April 26, 1982.

Detailed rules as to the use of this rate in establishing the ceiling rates for small saver certificates were published in the Federal Register on July 17, 1981.

Small saver ceiling rates and related information is available from the DIDC on a recorded telephone message. The phone number is (202)566-3734.

Approved ______________________

Francis X. Cavanaugh
Acting Director
Office of Market Analysis
& Agency Finance

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release
April 12, 1982

Contact: Willy Carney
566-5252

Brandstatter Moves to New Position

John M. Walker, Jr., Assistant Secretary (Enforcement and Operations) today announced that Arthur F. Brandstatter, Director of the Federal Law Enforcement Training Center (FLETC), Glynco, Georgia, will move to a new position as Special Assistant to the Assistant Secretary (Enforcement and Operations).

Mr. Brandstatter will begin his new assignment effective April 18, 1982. In his new responsibility, Mr. Brandstatter will serve as a principal advisor to the Assistant Secretary for the development of specialized training programs for state and local law enforcement officers.

"Art Brandstatter has been an outstanding Director of the Federal Law Enforcement Training Center" Mr. Walker said. "His experience will be most valuable in developing specialized training programs. Supporting state and local law enforcement is a high priority goal of this office."

Mr. Brandstatter was born in McKees Rock, Pennsylvania, on December 27, 1914. He holds degrees of Bachelor of Science in Police Administration from Michigan State University and a Master of Arts from the same institution.

Mr. Brandstatter began his career in 1938 as a member of the Detroit Police Department. After serving as a commissioned officer in the U.S. Army Air Corps during World War II, he was appointed Chief of Police at East Lansing, Michigan. In 1947, he accepted a position as Professor and Director of the School of Criminal Justice at Michigan State University, a post he held until 1976. He simultaneously served as Director of Public Safety for Michigan State University from 1947 to 1960.

During the time that he headed the criminal justice program at Michigan State University, Mr. Brandstatter introduced many academic innovations, such as studies in police science, crime prevention, and highway traffic administration; a masters and doctoral program in Criminal Justice and Criminology; field service training; and the National Institute on Police and Community Relations. He has advised many state and local police forces on their training programs, as well as the police organizations of foreign governments.

In post-World War II Germany, Mr. Brandstatter served as consultant on public safety to U.S. High Commissioner John J.

McCloy. He is retired from the U.S. Army Reserve with rank of Brigadier General. He served as official U.S. Delegate to the Fifth United Nations Congress on the Prevention of Crime and the Treatment of Offenders in Geneva in September, 1975.

In 1977, Mr. Brandstatter received the Enforcement Award from the Association of Federal Investigators for his outstanding contributions and accomplishments as a leader in the investigative and law enforcement fields. He is a member of the Boards of Directors of the Americans for Effective Law Enforcement and the Academy of Criminal Justice Service and numerous other organizations. He was selected to serve on the Board of Overseers of Indiana University in 1981. He is also listed in Who's Who in America.

Mr. Brandstatter was selected as the Director of FLETC in July, 1976. During his tenure, FLETC has doubled the number of participating organizations and completed a major construction program which provides for the latest state-of-the-art in law enforcement training facilities.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
April 13, 1982

CONTACT: GEORGE G. ROSS
(202) 566-2041

THE UNITED STATES AND THE PEOPLE'S REPUBLIC OF CHINA SIGN AN AGREEMENT ON RECIPROCAL EXEMPTION OF INTERNATIONAL SHIPPING AND AIRLINE EARNINGS

The U.S. Treasury Department today announced the signing of an agreement between the United States and the People's Republic of China on the taxation of income from the international operation of ships and aircraft. The Agreement, which was negotiated during the meetings of the Joint Economic Committee in Beijing in November 1981, was signed on March 5, 1982 in Beijing by the U.S. Ambassador to China, Arthur W. Hummel, and the Finance Minister of the People's Republic of China, Wang Bingqian. The Agreement will be transmitted to the U.S. Senate for its advice and consent to ratification.

The Agreement contains provisions similar to those found in the U.S. Model Income Tax Treaty concerning the taxation of income related to the international operation of ships and aircraft. It provides that the United States will exempt from Federal income tax income derived by Chinese enterprises from the operation of ships and aircraft in international traffic. The exempt income includes income from the rental of ships and aircraft which are used by the lessee in international traffic or if the rental is incidental to the operation of ships and aircraft in international traffic, and also includes income from the use of containers and related equipment in international traffic. Salaries of crew members of ships and aircraft derived by a resident of China would also be exempt from Federal income tax, unless the individuals are U.S. residents or citizens. In turn, China will exempt from tax the income of U.S. enterprises from operating ships and aircraft in international traffic, including income from the leasing of ships, aircraft and containers under the conditions described above, and the salaries of crew members who are U.S. residents (unless the individuals are residents or citizens of China).

Once the treaty is ratified, its provisions will have effect from January 1, 1981. It will supplement an exchange of notes signed in November 1981 and effective from January 1, 1981, which reciprocally exempts from tax income from the international operation of ships documented under the laws of the United States or the People's Republic of China, respectively.

Copies of the Agreement and the Treasury Department's Technical Explanation of the Agreement are attached.

o 0 o

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA WITH RESPECT TO MUTUAL EXEMPTION FROM TAXATION OF TRANSPORTATION INCOME OF SHIPPING AND AIR TRANSPORT ENTERPRISES

The Government of the United States of America and the Government of the People's Republic of China have agreed as follows, with respect to mutual exemption from taxation of transportation income of shipping and air transport enterprises:

ARTICLE I

Income and profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that Contracting State.

ARTICLE II

1. The term income and profits from the operation of ships and aircraft includes:

(a) Income and profits from the operation of passenger, cargo, or mail transportation service by the owner or charterer of a ship or aircraft, and the sale of tickets related to such transportation;

(b) income and profits from the rental of ships or aircraft which are operated in international traffic by the lessee;

(c) income and profits from the rental of ships or aircraft if such rental is incidental to the operation of ships or aircraft in international traffic; and

(d) income and profits from the rental or use of containers (and related equipment for the transport of containers) used in international traffic.

The income and profits referred to in (a) through (d) above are, in each case, derived by an enterprise of a Contracting State.

2. The term international traffic means any transport by a ship or aircraft, except when such transport is solely between places in the other Contracting State.

ARTICLE III

Gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft, or containers operated in international traffic shall be taxable only in that State.

ARTICLE IV

1. The term enterprise means:

(a) A state-owned or collectively-owned enterprise of, and an enterprise carried on by a resident of, the People's Republic of China; and

(b) an enterprise carried on by a company incorporated in the United States of America and an enterprise carried on by a resident of the United States of America.

2. The term enterprise also includes a participation in a partnership or joint business by an enterprise referred to in paragraph 1.

ARTICLE V

Salaries and other remuneration derived by a resident of a Contracting State employed as a member of the crew of a ship or aircraft operated in international traffic shall be exempt from tax in the other Contracting State.

ARTICLE VI

The competent authorities of the Contracting State shall seek to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this Agreement.

ARTICLE VII

Nothing in this Agreement prevents a Contracting State from taxing its residents and citizens.

ARTICLE VIII

Each of the Contracting States shall notify the other Contracting State in writing, through diplomatic channels, upon the completion of their respective legal procedures to bring this Agreement into force. The Agreement shall enter into force on the date of the later of such notifications and the provisions shall take effect on January 1, 1981.

ARTICLE IX

This Agreement shall remain in force indefinitely. However, either Contracting State may terminate the Agreement by giving six months prior notice to the other Contracting State, through diplomatic channels, in which case the Agreement shall cease to have effect as of January 1 following the expiration of the six months period.

Done at Beijing this fifth day of March, 1982, in duplicate, in the English and Chinese languages, the two language texts having equal authenticity.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

Arthur W Hummel Jr

FOR THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

王丙乾

TECHNICAL EXPLANATION OF THE AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA WITH RESPECT TO MUTUAL EXEMPTION FROM TAXATION OF TRANSPORTATION INCOME OF SHIPPING AND AIR TRANSPORT ENTERPRISES SIGNED AT BEIJING ON MARCH 5, 1982

This technical explanation is an official guide to the Agreement. It reflects policies behind particular provisions of the Agreement, as well as understandings reached with respect to the interpretation and application of the Agreement. The Agreement deals only with the taxation of shipping and air transport enterprises, although it is anticipated that, at some point in the future, the principles contained therein will be included in a more comprehensive income tax convention between the two countries.

Article I

This Article states the basic rule of the Agreement that income and profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that Contracting State (i.e., the State of residence of the enterprise (see discussion of Article IV)). The relevant terms in this Article are discussed elsewhere in the Agreement.

In the case of the People's Republic of China, the tax exemption applies to all taxes on income and profits collected at the national level (whether in force at the time of signature or subsequently enacted), including local surcharges collected by the national government. In the case of the United States, the tax exemption covers the Federal income tax. However, it was understood that if any state or locality of the United States imposes tax on enterprises of the People's Republic of China on income and profits from the operation of ships or aircraft in international traffic, the People's Republic of China may impose any local surcharge on such income and profits of U.S. enterprises.

Persons qualifying for the exemption must file appropriate tax returns with the tax authorities of the People's Republic of China or the U.S. Internal Revenue Service, as the case may be.

Article II

Paragraph 1 provides an illustrative list of the income and profits covered by this Agreement. The use of the term "income and profits" in the Agreement differs from the U.S. Model, where only the term "profits" is used. No substantive difference is intended. The reference to "income and profits" is merely intended to clarify that qualifying profits are exempt from tax, regardless of whether that tax is imposed on gross or net income.

Income and profits from the operation of ships and aircraft includes normal operating income, such as income and profits from the operation of passenger, carge, or mail transportation services, and from the sale of tickets related thereto. Income and profits covered include those from the rental of ships or aircraft which are operated in international traffic by the lessee or if such rental is incidental to the operation of ships or aircraft in international traffic. Thus, if a U.S. bank charters a vessel to a third party, the resulting rental income is exempt from Chinese tax if the vessel is operated in international traffic by the lessee. If a U.S. shipping enterprise charters a vessel to a third party, the resulting rental income is exempt from Chinese tax since such a charter would be incidental to the U.S. enterprise's shipping operations, regardless of whether the operator uses the vessel in international traffic.

The rental income and profits described in this Agreement are included whether the rental is on a full or bareboat basis, and irrespective of the State of residence of the operator.

Paragraph 1(d) provides that income and profits from the operation of ships and aircraft includes income and profits from the rental or use of containers (and related equipment for the transport of containers) used in international traffic.

The flush language of paragraph 1 merely states that an exemption is available only to covered income and profits of an enterprise of a Contracting State. Thus, if a U.S. shipping company charters a vessel to a French shipping company operating in China, the tax exemption granted by the Agreement applies to the rental income and profits derived by the U.S. shipping company, and does not extend to the operating income of the French shipping company.

Paragraph 2 defines the term "international traffic" as any transport by a ship or aircraft, except when such transport is solely between places in the other Contracting State. The definition is identical to the definition contained in the U.S. Model. Thus, for example, if a ship operated by a U.S. resident transports goods from San Francisco to China, leaving some of the goods in Shanghai and the remainder in Nanjing, the entire transport would be international traffic. However, if that ship were to pick up additional goods in Shanghai and deliver them to Nanjing, the transport of those additional goods would not be in international traffic.

Article III

Article III is identical to the U.S. Model and provides that gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft, or containers operated in international traffic shall be taxable only in that State (i.e., the State of residence of the enterprise (see discussion of Article IV).

Article IV

Article IV provides the definition of the term "enterprise." Paragraph 1 provides that the term "enterprise" means: in the case of the People's Republic of China, a state-owned or collectively-owned enterprise of, and an enterprise carried on by a resident of, the People's Republic of China; and in the case of the United States, an enterprise carried on by a company incorporated in the United States (i.e., a company incorporated under the laws of the United States, a state thereof, or the District of Columbia), and an enterprise carried on by a U.S. resident.

For the purposes of this Agreement, an individual is not automatically a resident of the United States or China, as the case may be, merely because he is a citizen or national of either State (i.e., a citizen of one of the Contracting States who is not a resident of either). To be a resident of a Contracting State for purposes of the Agreement, he must be subject to tax in that State on account of his residence therein. Thus, an individual will be considered a U.S. resident if, without regard to his citizenship, he would be taxable by the United States on his worldwide income as a resident. Residence for this purpose (and for other provisions of the Agreement) is to be determined in accordance with the principles of Treasury regulations under section 871 of the Internal Revenue Code.

Paragraph 2 provides that the term "enterprise" also includes a participation in a partnership or joint business by an enterprise referred to in paragraph 1. No substantive difference from the provisions of the U.S. Model is intended by the use of the term "partnership" rather than "pool," or by the omission of a reference to an "international operating agency."

Article V

Article V provides that salaries and other remuneration derived by a resident of a Contracting State employed as a member of the crew of a ship or aircraft operated in international traffic shall be exempt from tax in the other Contracting State. Such remuneration is taxable only by the Contracting State of residence of the crew member. In the case of the United States, the tax exemption applies to the Federal income tax. In the case of the People's Republic of China, the tax exemption applies to the individual income tax and any local surcharges thereto collected by the national government.

Article VI

Article VI provides that the competent authorities of the Contracting States shall seek to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Agreement. It is intended that the competent authorities may communicate with each other directly for the purpose of reaching an agreement. It is contemplated that the competent authorities may, for example, agree to the meaning of a term or a single residence of an individual who is a resident of both Contracting States under their respective internal laws. However, in the absence of a mutual agreement, any term not defined in the Agreement is to be defined under the domestic tax law of the Contracting State applying the Agreement, unless the context in which the term is used requires a definition independent of such domestic tax law. In the case of the United States, the competent authority is the Secretary of the Treasury or his delegate.

Article VII

Article VII contains the traditional "saving clause" under which each Contracting State reserves the right to tax its citizens and residents as if the Agreement had not come into effect.

Article VIII

Article VIII provides that each Contracting State shall notify the other Contracting State in writing, through diplomatic channels, upon the completion of the legal procedures required to bring the Agreement into force. It further provides that the Agreement will enter into force upon the later of such notifications, and that the provisions of the Agreement will have effect on January 1, 1981. In the United States, the provisions apply to taxable years beginning on or after January 1, 1981. In the People's Republic of China, the provisions apply to taxes paid on or after January 1, 1981. Thus, when the Agreement enters into force, residents of the Contracting States may be entitled to refunds of certain tax previously paid upon the filing of appropriate claims for refund pursuant to the provisions of the domestic tax law of the Contracting State from which a refund is sought.

Article IX

The Agreement shall remain in force unless terminated by one of the Contracting States. Either Contracting State may terminate the Agreement by giving at least six months prior notice through diplomatic channels. In that event, the Agreement shall cease to have effect as of the first day of January next following the expiration of the six month period. Accordingly, in the United States, the Agreement would cease to have effect with respect to taxable years beginning on or after the next following January 1; in the People's Republic of China, the Agreement would not apply to taxes paid on or after the next following January 1.

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. April 13, 1982

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $9,400 million, to be issued April 22, 1982. This offering will result in a paydown for the Treasury of about $75 million, as the regular 13-week and 26-week bill maturities were issued in the amount of $9,473 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $4,700 million, representing an additional amount of bills dated January 21, 1982, and to mature July 22, 1982 (CUSIP No. 912794 BE 3), currently outstanding in the amount of $4,943 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $4,700 million, to be dated April 22, 1982, and to mature October 21, 1982 (CUSIP No. 912794 BQ 6).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing April 22, 1982. In addition to the maturing 13-week and 26-week bills, there are $4,261 million of maturing 52-week bills and $10,017 million of maturing cash management bills. The disposition of these latter amounts was announced last week. Federal Reserve Banks, as agents for foreign and international monetary authorities, currently hold $2,284 million, and Federal Reserve Banks for their own account hold $2,502 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three regular issues of maturing bills.

Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average prices of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $1,456 million of the original 13-week and 26-week issues.

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

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, April 19, 1982. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on April 22, 1982, in cash or other immediately-available funds or in Treasury bills maturing April 22, 1982. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Section 454(b) of the Internal Revenue Code, the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed, or otherwise disposed of. Section 1232(a)(4) provides that any gain on the sale or redemption of these bills that does not exceed the ratable share of the acquisition discount must be included in the Federal income tax return of the owner as ordinary income. The acquisition discount is the excess of the stated redemption price over the taxpayer's basis (cost) for the bill. The ratable share of this discount is determined by multiplying such discount by a fraction, the numerator of which is the number of days the taxpayer held the bill and the denominator of which is the number of days from the day following the taxpayer's date of purchase to the maturity of the bill. If the gain on the sale of a bill exceeds the taxpayer's ratable portion of the acquisition discount, the excess gain is treated as short-term capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. April 14, 1982

TREASURY TO AUCTION $5,250 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $5,250 million of 2-year notes to refund $4,048 million of notes maturing April 30, 1982, and to raise $1,202 million new cash. The $4,048 million of maturing notes are those held by the public, including $422 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $525 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders. Additional amounts of the new security may also be issued at the average price to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing securities held by them.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

oOo

Attachment

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED APRIL 30, 1982

April 14, 1982

Amount Offered:

To the public	$5,250 million

Description of Security:

Term and type of security	2-year notes
Series and CUSIP designation	Series R-1984 (CUSIP No. 912827 NC 2)
Maturity date	April 30, 1984
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	October 31 and April 30
Minimum denomination available	$5,000

Terms of Sale:

Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less
Payment by non-institutional investors	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Deadline for receipt of tenders	Wednesday, April 21, 1982, by 1:30 p.m., EST
Settlement date (final payment due from institutions)	
a) cash or Federal funds	Friday, April 30, 1982
b) readily collectible check	Wednesday, April 28, 1982
Delivery date for coupon securities	Wednesday, May 12, 1982

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
THURSDAY, APRIL 15, 1982
4:45 p.m.

ADDRESS BY THE HONORABLE NORMAN B. TURE
UNDER SECRETARY FOR TAX AND ECONOMIC AFFAIRS
CASE WESTERN RESERVE UNIVERSITY, CLEVELAND, OHIO
HOWARD T. MCMYLER AWARD LECTURE
APRIL 15, 1982

I am honored to have been asked to participate in these proceedings to honor Howard T. McMyler. The ideals of a free enterprise system of economic organization and of a conservative form of government which seeks to strengthen that system, ideals which Mr. McMyler presented to his students and his community, have a long history. In 1776, the concepts which give analytical substance to those ideals were systematically assembled and presented by Adam Smith in The Wealth of Nations. In the same year, the birth of our nation was an affirmation of the essentiality of conservative government to the end of securing the primacy of the individual and of the indivisibility of the individual's social, civil, and property rights. These ideals have been frequently and sorely tried in the ensuing two hundred and more years. They have survived every challenge and become sturdier and richer with the passage of time. They are today as fresh and as exciting as ever.

As is so often the case, however, there is a large gap between these ideals in the abstract and their implementation in our public policies and the conduct of government. For much of the last half a century, there has been a gathering momentum toward government policies which, as they take effect, constrict and circumscribe freedom in the conduct of economic affairs, which have year by year broadened the scope of government influence on how the economy performs, and which have resulted in governments' preempting an

ever-increasing share of our total production capability. The freeness and privateness of the organization of the economy have tended to slip away while government actions and policies have increasingly eroded the spirit of enterprise in the system. Government at all levels has become less conservative as it has more and more invaded the daily life of us all.

Mr. McMyler surely would have been dismayed, although not defeated, by the perception that the thrust away from conservatism in government and away from the freedom, privateness, and enterprise in the organization of the economy has been bipartisan. Republican as well as Democrat administrations and congresses have found it easier to go with the trend toward government domination and control of the economy than to attempt to stem the tide, let alone reverse it. But Mr. McMyler would have taken heart from the observation that the American economy has so far been able to withstand virtually every abuse that government policy makers have been able to devise and impose on it.

Mr. McMyler would have been encouraged by the developments in American political economy at the end of the 1970's and the early 1980's. He would have seen the emergence of a dramatically different view about how government policies and actions affect the performance of the economy and about the types of programs and policies which are called for in the interests of effective operation of the economy. And he would have been delighted to observe that the changes in perception and in policies were solidly based on the most rigorous, the most solid, and the most thoroughly investigated body of economic analysis --- the neoclassical theory to which the giants of the economics discipline contributed so much. He would have recognized with pleasure that the intellectual foundations of the new political economy were the handiwork of Adam Smith, David Ricardo, Jean Baptiste Say, John Stuart Mill, and Alfred Marshall. Finally, he would have found in the Economic Recovery Program which President Reagan presented last year solid evidence that the philosophic preferences for individual freedom and responsibility can be effectively embodied in government policies and actions and need not be merely slogans to which only lip service is given.

The Philosophy of the Reagan Economic Recovery Program

In virtually every major respect, the Reagan economic program represents a dramatic and drastic shift in the perception of what are government's responsibilities with respect to effective operation of the economy and how these responsibilities are most effectively discharged. The underlying views which had long prevailed in prior administrations were that the market sector of the economy, left to its own devices, could do nothing right, and that the

individual is economically powerless and must be protected by government from economic mischance. This conviction, seldom expressly articulated but evident in virtually every phase of government policy, gave rise to an ever-expanding participation by government over an ever-broadening scope of economic activity. Increasingly, it was incorporated in government policies and programs which strip the individual of responsibility for determining his or her economic status and prospects. And more and more, it was reflected in constraints on how businesses and households might conduct their daily economic lives and exercise their property rights.

These views were rejected in the formulation of the Reagan Economic Program. The fundamental premise upon which this program is based is that if government policies and actions less interfere with its operations, a free, private enterprise organization of the economy, operating in a market system, can and will perform effectively --- far more so than it has. It follows from this premise that the outcomes of the functioning of the market system, operating in a much freer atmosphere than in the past, are not only acceptable but, indeed, the best, overall, than can be achieved. In applied terms, this means that the top priority in public economic policy should be to enhance, to the maximum possible extent, the function of the free, private market system in allocating the Nation's labor, capital, and other resources among the myriad alternative uses to which they can be put. Decisions about how much of our existing resources should be used to add to production capability as opposed to satisfying current consumption demands should be made by the interactions of households and businesses in the market, not by government directive. What types of capital are acquired, what industries acquire them, what products they produce are decisions for investors and businesses, as mobilizers of resources, to make in response to market signals, not government fiats. How much of our time and resources to allocate to market-oriented and directed employments and how much to "leisure" are decisions we should make as individuals, in response to the costs and rewards we encounter in the market place for all of the alternatives, not in response to government penalties or subsidies. And the consequent distribution of income and wealth should be perceived as systematically associated with the economy's performance, not as an unrelated phenomenon subject in isolation to government manipulation.

This should not be construed as blind faith in the perfection of markets or as a conviction that market performance cannot be improved. Instead, it leads to the broad policy prescription that the responsibility properly to be assigned to government is to identify the sources of

market failure and to facilitate more efficient market operation, not to constrain and to dictate market outcomes. Increasing market efficiency calls for reducing the weight of diverse influences which distort the signals --- relative prices --- which markets emit as guides to the most efficient and satisfying use of our resources.

Shifting assignment of responsibility for the initiation of economic activity and for determination of the composition of economic activity and its course over time from government to the private sector requires rejection of the elitist notion that public policy makers know better than private market participants what is good for them --- the private market participants. The essential concomitant of an efficiently operating free, private market system is that public policies respect the individual, his capacity to make his own way, his right to make mistakes and to learn from them, and in sum, to determine his own economic fate. This respect, embodied in policies, is the hallmark of truly conservative government.

The Reagan Economic Recovery Program's Elements

The Reagan Economic Recovery program epitomizes this perspective on government and the economy. As the President has repeatedly observed, the economy's most valuable resources are its people. To avail ourselves of these resources, we must remove or at least moderate the institutional inhibitions of individual incentives. Instead, we must provide institutional arrangements in which the private market mechanism can more efficiently perform. To this end, clearly, the thrust toward an ever-mounting edifice of complex regulations must be reversed. The policy concern is not to dismantle the existing regulatory system nor to abandon totally the use of regulatory powers. Instead, the effort is to change the focus of regulation from mere circumscription, constraint, and control of how households and businesses perform toward allowing them to perform more efficiently by internalizing, where possible, relevant benefits and costs.

Secondly, the Reagan program calls for revising government spending programs not merely to reduce the extent to which they preempt and control the economy's production capability but also to assure that any such preemption is directed toward appropriate objectives and in such ways as to offer the greatest possible assurance of efficient pursuit of these objectives. In turn, this requires rejecting the assumption that government programs have and are entitled to a life of their own. Curbing the growth of government spending should not be seen as part of a doctrinal fixation on balanced budgets. The urgency in curbing Federal spending growth derives in large measure from recognition of the fact that virtually all government outlays change relative prices

and costs, often unintentionally and in ways which are not perceived. The side effects of government outlays may go unnoticed by public policy makers but they nevertheless act to impair the efficiency with which markets function. Reducing the growth in these outlays is an effective way of moderating their adverse effects on market efficiency as well as restraining the extent to which government preempts our production capability.

Third, if the market system as a whole is to operate efficiently, our single most critically important market --- the financial market --- must do so as well. Our financial markets perform the essential functions of informing us about the costs and rewards for exchanging current consumption for future income, of mobilizing our saving and directing it into its most productive uses. To be sure, any number of factors may adversely impact the functional effectiveness of the financial market. We have, over the years, accumulated a ponderous complex of regulations of the structure and operation of financial institutions. Modification or elimination of these antique constraints is a high priority goal of the Administration in the interests of allowing financial institutions to perform more efficiently.

Just as important, however, is to establish firmly a monetary policy which is consonant with efficient financial market functioning. Insofar as monetary policy results in erratic and unpredictable changes in the stock of money, it imposes costly barriers to efficient portfolio management and distorts and confuses information about the real terms of trade between the present and the future. And where the growth in the supply of money is too rapid, the consequent inflation interacts with the tax system to accentuate real tax rates and their adverse effects on working, saving, investing, risk-taking, innovation --- the activities on which we depend for economic progress. Financial market efficiency requires moderate, steady growth in the supply of money.

Finally, the Reagan program lays great stress on constructive tax provisions in the interests of allowing markets to perform efficiently and of reducing tax impediments to growth-generating activities. The aim here is a system of taxation which least distorts the signals cast up by the market system with respect to the most rewarding uses of production capabilities. The focus of tax policy is to minimize the excise effects of taxation, i.e., the alteration of the relative prices which would prevail in the absence of taxation. Neutrality is elevated to be the primary criterion of a good tax system, that is, a tax system which imposes the least possible impediment to efficient functioning of the market system.

This was the guiding principle in the President's tax program which emerged ultimately as the principal part of the Economic Recovery Tax Act of 1981. The core of the tax program for individual taxpayers is the staged, across-the-board reductions in bracket --- marginal --- tax rates, followed by indexing to avert inflation's cancelling these rate reductions. It is the taxpayer's bracket rate which affects the cost and reward he incurs for an incremental hour of work and for an additional dollar of saving. Only by reducing bracket rates --- for all taxpayers, not merely some deemed to be more worthy than others --- is it possible to reduce the tax disincentives for market-directed and rewarded work and to moderate the inherent income tax bias against saving and investment.

This kind of tax reduction for individuals contrasts sharply with the approach long followed in the past. The Reagan tax program concentrated on reducing bracket or marginal tax rates in the interests of increasing individual incentives for work, saving and investing, risk-taking, and innovation. Earlier tax programs focused on reducing average tax rates, particularly for lower income individuals in the interests of redistributing income, while allowing bracket rates to escalate in response to inflation. In the past, in short, tax policy chased an equity will o' the wisp, at the cost of an ever-increasing tax bias against productive, market-directed personal effort, saving and investing.

The principal component of the tax program affecting business taxpayers is the drastic and dramatic revision in the tax provisions regarding capital recovery. The Accelerated Cost Recovery System which replaced the antique depreciation system business had long endured was based on the perception that some such change was necessary to reduce the basic income tax bias against saving invested in durable capital, particularly during an inflationary era. It can be readily shown that if the income tax is to increase the cost of saving and capital no more than the cost of consuming, it must afford capital recovery deductions the present value of which equals the cost of the capital facilities. There was a growing awareness of the fact that under the then existing depreciation system, restricting the sum of the write-offs of capital investments against taxable income to the original cost of the facilities and extending these write-offs over relatively long periods, the real present value of these offsets against income subject to tax is less than the replacement cost of the assets. Some calculations indicated that during periods of particularly strong inflation, real tax rates on the returns to durable capital were vastly greater than the statutory corporation income tax rate --- indeed, in some cases approached or exceeded a confiscatory 100 percent.

It is clear, surely, that such tax results must result in gross understatement of the real contribution to total output made by additions to our stock of capital, and thereby mislead savers and investors about the real costs and rewards for forgoing current consumption.

Apart from the immediate objectives served by last year's tax legislation, its overall thrust is consonant with the basic aims of the Reagan Economic Recovery Program. Those aims, to repeat, are to remove --- or at least to lighten --- the deadening hand of government on the economy and to allow private initiative to restore a long-missing vitality to our economic life.

Some Concluding Observations

Substantial progress was made last year toward the achievement of these aims. The Congress and the Administration together demonstrated that the growth in Federal spending could be constrained to a manageable rate. Under Vice President Bush's direction, the Administration moved impressively toward rationalizing our regulatory system and reducing its burden while continuing effective pursuit of worthwhile objectives of regulation. The Congress endorsed the President's tax policies and enacted the most drastic, dramatic, and constructive changes in our tax system since the inception of our income tax in the early part of this century. And the Federal Reserve succeeded in decelerating the growth in the stock of money, thereby materially reducing inflationary momentum, even though that monetary growth has remained excessively volatile.

We are today at a crossroads in public economic policies. The extension and deepening of the recession which began early in 1979 has led to substantial upward revisions of the projected Federal deficits over the next several years. Dealing with these deficits in a manner which will not prove to be counterproductive, which will move toward a budget balance without weakening the impetus for economic recovery, poses an enormous challenge. The effort to achieve a "budget compromise" in significant part by raising taxes would strike at the very heart of the Reagan program. Tax increases would materially blunt the effort to reconstruct public policies in order to free up the market system, to allow it to perform more effectively, and thereby to afford a solid basis for economic progress. No less than last year --- indeed, even more so ---achieving and sustaining economic recovery in a free environment calls for reducing the growth in Federal outlays, for a less oppressive regulatory machinery, and for steady, moderate growth in the stock of money. And no less than last year, it calls for the greatest possible stress on reducing the excise effects of our tax system, at the very least on holding down tax rates for individual and corporate taxpayers alike.

The Reagan program is a grand design for restoring economic freedom and responsibility to the individual, thereby reinvigorating the types of activities upon which economic progress has always depended. There are, to be sure, many possible impediments to the effective implementation of that design. The current state of the U.S. financial markets could impose a major stumbling block to the positive responses to the Reagan program. But if the appropriate monetary policy is achieved and adhered to, the condition of those markets will rapidly improve. One of the major indications of that improvement will be a structure of interest rates which far more closely than at present reflects capital's real contribution to output. In this setting, significant gains in output in housing, construction, consumer durables, and capital goods will be forthcoming. More important than these gains, the progress toward greater economic freedom, toward investing the individual with greater opportunity and responsibility for determining his or her economic status should be seen as the real measure of the Reagan economic program's success.

FOR IMMEDIATE RELEASE

REMARKS BY
THE HONORABLE JOHN M. WALKER, JR.
ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)
DEPARTMENT OF THE TREASURY
BEFORE THE
13TH MAJOR DRUG TRAFFICKERS PROSECUTION CONFERENCE
WASHINGTON, D.C.
APRIL 14, 1982

I am deeply honored to address this assembly of professionals -- investigators and prosecutors of major drug traffickers -- in the war against narcotics. As a former narcotics prosecutor myself, I know the challenges you face from the most ruthless element in our society. The theme of this conference, "New Alliances in Federal Drug Prosecutions," underlines the importance of cooperation among the various federal law enforcement agencies engaged in the narcotics war -- both as between themselves and with state and local agencies -- particularly in this era of less resources. Such cooperation is essential; we must constantly strive to have more of it.

At Treasury we are deeply enmeshed in narcotics enforcement -- through Customs' interdiction efforts by air, land and sea, joint DEA-ATF task forces, an important DEA/Customs task force currently operating in Florida which the Vice President spoke to you about yesterday and about which I will speak further, IRS tax examinations of major traffickers and joint IRS-Customs financial investigations. Treasury is not just paying lip service to inter-agency cooperation; we live by it. For, while we take seriously our primary role in narcotics interdiction and tax investigations, we also recognize DEA's primary jurisdiction in drug investigations. This has led to important additional cooperative efforts. Today I will comment on three such efforts: First, Customs/IRS financial investigations of the Greenback type; second, the Vice President's Task Force; and third, ATF's work with DEA in making firearms cases against major drug traffickers. I then would be happy to try to answer your questions.

At Treasury -- not surprisingly -- we go after the money that drives the narcotics traffic. Behind every narcotics transaction, there is money; behind every major trafficker, there is more money and plenty of it. That money is always there as potentially devastating evidence in a narcotics trial or even as the basis for substantive charges. One of our jobs at Treasury is to find this money for you -- for prosecutors and other enforcement agencies. Today, financial law enforcement has become a powerful weapon in the arsenal against drug trafficking.

As we all know, federal law enforcement agencies for many years have sought to attack racketeers and other major criminals through their financial dealings. Records of financial transactions link persons engaged in criminal conspiracies. Federal income tax laws have long been used to prosecute major organized crime figures, such as, Frank Costello in the 1950's and Al Capone in the 1930's.

But, criminal organizations have come a long way since the 1930's. As the sophistication in organized crime, particularly drug trafficking organizations, has improved, Federal agencies have had to develop the use of modern technology to keep pace with these trends. And progress has accelerated sharply during just the past few years. This progress is due in large part to the Treasury Department's expanded use of the Bank Secrecy Act, administered by the office of the Assistant Secretary. This Act assists law enforcement officials in three important ways.

First, the Act requires banks to keep the records needed to reconstruct financial transactions. Second, the reports that banks and others are required to file often provide valuable information to law enforcement officials. These reports document currency deposits of $10,000 or more, currency movement across the border of $5,000 or more, and foreign bank accounts. And, finally, the failure to file the required reports can be a basis for prosecuting a criminal who has been involved in large currency transactions.

The Bank Secrecy Act was introduced in 1969 after law enforcement officials expressed concern over the difficulties in investigating and documenting the financial aspects of international crimes. During extensive hearings in both the House and the Senate, Government officials described how foreign bank accounts were being used in tax evasion, bribery, securities violations and drug violations. The Act was intended to make transactions related to such criminal activity easier to detect and document.

The unit in the Customs Service assigned to analyze Bank Secrecy Act reports has grown and improved through the years. Recently, its currency capabilities were recognized when we announced the creation of the Financial Law Enforcement Center and doubled the size of the staff. Customs has now developed computerized indices for the currency transaction reports, reports of foreign bank accounts, and the reports of the international transportation of currency and monetary instruments. The Center is able to identify all of the reports pertaining to a specific person or entity in a matter of seconds and to promptly provide this valuable information to other Federal law enforcement agencies. Furthermore, based upon these detailed reports, the center prepares charts depicting the financial flow of drug money - naming traffickers, couriers, and money launderers.

During the past few years, Treasury provided DEA alone with information from more than 7,400 reports, reflecting more than $1.5 billion in currency transactions. We have also provided DEA with thousands of reports of the international transportation of currency. Although some of this data was provided in response to specific requests, the bulk of it was supplied on the basis of general criteria developed by Customs and DEA. For many years, this report information has also been available to Federal prosecutors through the Criminal Division at the Department of Justice, and many U.S. Attorneys have used it to identify possible violators or to provide leads and support for ongoing investigations. I urge those of you professionals personally involved in drug investigations and prosecutions to make certain that you have obtained whatever data FLEC has concerning your subjects. Contact Customs' Office of Investigations at the local or national level to get access. You will be pleased with the results.

"Operation Greenback" in South Florida, as a case study, shows how useful this financial information can be. Let me give you a little history on this operation. In the late 1970's, reports of the Federal Reserve showed a very large and rapidly growing surplus of currency in Florida. This cash was flowing into the Federal Reserve System where the banks were dumping their currency. This was counter to the normal trend of currency outflow from the Fed as currency expands. That surplus reached $4.9 billion in 1979 and $5.9 billion in 1980 - and it wasn't coming from waitresses who were receiving more tips.

We then collected Bank Secrecy Act information identifying the commercial banks that were depositing large amounts of currency into the Federal Reserve offices in Florida. In addition, we analyzed hundreds of currency transaction reports filed by banks in Florida. Those reports clearly identified a large number of individuals and firms that were dealing in extraordinarily large volumes of currency. We then concluded -- and it wasn't too hard to do this -- that the majority of these individuals and firms were illegitimate -- either part of major narcotics trafficking rings or organizations formed to launder money for major drug traffickers.

Our initial strategy for Operation Greenback was based on two concepts. First, an attack would be made through the vulnerability of the traffickers' financial activity. We would enforce the tax laws and the Treasury regulations requiring the reporting of large currency transactions or the international movement of large amounts of currency.

Second, the criminal investigations would be integrated through the grand jury process with special prosecutors coordinating all of the related investigations, including those within the jurisdiction of the FBI, DEA, or ATF as well as Customs and IRS. The grand jury umbrella would permit all of the agents participating in the investigation to pool information, including financial information. This type of sharing across agency lines, which is so essential to the successful investigation of sophisticated criminal activity, was not encouraged by traditional investigative operations. It would be required under Greenback.

Operation Greenback in its two-year history has turned out to be a highly significant coordinated Federal law enforcement effort, and it has had some important accomplishments. As of the end of February, 90 people had been indicted in the Greenback Operation. Currency seizures have exceeded $20 million. Jeopardy tax assessments in the amount of $112 million have been obtained. The scope of the problem in South Florida is so great that now only organizations laundering over $100 million a year are presently being targeted. Even more important than Greenback's successes is its value as a model of a new approach to prosecutions of major money launderers, financial institutions and narcotics trafficking organizations together with forfeiture of their assets. It is not just another Federal effort. It is an innovative combination of target selection techniques across jurisdictional lines. It is a powerful new weapon for Federal law enforcement against organized criminal elements.

The IRS now has 27 agents connected to the Greenback effort; Customs has 10 and DEA has 4. Each organization has in addition a number of support personnel including intelligence analysts, revenue agents, audit aides, managers and clerical support. The cornerstone of the project, however, is the six Federal prosecutors who work closely with the agents advising them and coordinating the combined effort. They are the glue that holds Operation Greenback together. They also determine to a great extent the rate of progress for the entire project. The investigating bureaus can investigate a subject inside out, but only the prosecutor can take the case to indictment and eventually to trial.

Similar joint efforts have been started in a number of cities across the nation -- 18 cities by my latest count. Some of them appear to have been inspired by Operation Greenback, others have a slightly different approach. They all emphasize the use of the Bank Secrecy Act data base that Customs maintains and cooperation between Federal agencies. They are all supported by Federal prosecutors. We expect these financial task forces to flourish and to increase in number - much like expansion teams in baseball. Customs and IRS will continue to provide information as well as the expertise their agents have acquired in Operation Greenback. The IRS recently assigned a seasoned criminal investigator to my staff to assist these expansion teams.

In addressing the theme of this conference which is Federal cooperation in drug prosecutions, I would like to turn to an important development in drug enforcement which is underway in Florida -- the Vice President's Task Force. Alarmed by an overwhelming crime situation in Florida, the key element of which is drug trafficking, the Miami Citizens Against Crime persuaded the President that a special effort was needed by the Federal Government. The Vice President was given the responsibility for this effort, and he established a task force to address all facets of the problem. A significant part of this effort involves the assignment of over 200 Customs personnel (Special Agents, Patrol Officers, intelligence analysts, clerical support and logistical support) to Miami, Tampa and Jacksonville to enhance drug interdiction efforts and to give additional investigative support to those efforts. A combined DEA-Customs task force has been established under the direction of a DEA task force leader with a Customs deputy. This task force has now been operational for one month and is involved in every aspect of the drug problem in Florida. Personnel assigned to the task force are working in a cooperative and harmonious manner, and it involves a significant milestone in the rejuvenation of an old alliance connected with the Federal anti-drug effort.

The Florida task force project also involves intensified air interdiction efforts with full military support. This has resulted in a dramatic drop in illegal drug air traffic over Florida. The price of marijuana and cocaine is decreasing in Colombia and is increasing in Florida. The cost of smuggling has sharply increased. By any measure this interdiction effort is working - the other side is right now afraid to bring the narcotics in.

The Administration is now in the process of asking the Congress to supply supplemental funding to maintain this task force operation for the remainder of the current fiscal year. We will be closely monitoring the accomplishments of the task force and the resources committed to it in an effort to better determine permanent staffing levels in Florida since Florida still remains the gateway for the vast majority of the cocaine and marijuana which enters the U.S.

Finally, I wish to mention the role the Bureau of Alcohol, Tobacco and Firearms which, as part of its responsibility to combat violent crime, has established a national narcotics strategy designed to exploit the vulnerability of narcotics traffickers through the selective application of Federal firearms laws. Law enforcement officials have long recognized the overlap between illegal narcotics and firearms activities. A significant number of narcotics offenders are now routinely armed and use weapons to pursue their illegal conduct. Firearms are rapidly becoming an indispensable element of organized narcotics trafficking activity.

Even more alarming is the fact that ATF investigations are uncovering evidence that some narcotics dealers have also become traffickers in automatic weapons. There has been a widespread proliferation of automatic weapons, silencer equipped firearms and silencers in certain areas of the country, such as South Florida, which are plagued by narcotics problems. In addition, many narcotics traffickers are also associated with the smuggling of firearms to foreign countries where there are significant levels of narcotics production.

On the positive side, narcotics traffickers, due to the repetitive nature of their illegal activities, often fall into categories which are statutorily prohibited from processing firearms such as that of convicted felons. Thus, while these narcotics traffickers may be successful in insulating themselves from arrests and prosecution for narcotics offenses, many are increasingly vulnerable to prosecution for Federal firearms offenses. ATF and DEA have joined forces in a cooperative

intelligence plan designed to address the growing problem of firearms acquisition and use by major narcotics traffickers in the United States.

As a result of the critical sharing of information between these two agencies, the names of over 8,000 narcotics violators have been entered into the Treasury Enforcement Communications System (TECS) and referred to ATF field offices for investigation. As a result of this ATF Narcotics Impact Program, during FY 1981 ATF submitted 465 cases against narcotics traffickers for prosecution. We are anticipating even greater successes in this area in the future.

In closing, I want to wish you the best of luck in your professsion - the investigation and prosecution of major drug traffickers. As you perform this vital public service, you can rely on the full cooperation and support of the Treasury Department and its enforcement bureaus.

I will be pleased to answer questions if time permits.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE April 15, 1982

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $5,250 million of 52-week bills to be issued April 22, 1982, and to mature April 21, 1983, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $620,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-issue Yield) 1/
High -	87.167	12.692%	14.26%
Low -	87.104	12.754%	14.33%
Average -	87.128	12.731%	14.30%

Tenders at the low price were allotted 53%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 43,825	$ 28,825
New York	8,040,600	4,472,400
Philadelphia	6,875	6,875
Cleveland	81,235	54,235
Richmond	96,715	69,715
Atlanta	29,705	29,705
Chicago	856,515	161,765
St. Louis	48,905	27,905
Minneapolis	37,220	37,220
Kansas City	26,610	26,610
Dallas	4,840	4,840
San Francisco	701,190	246,190
Treasury	83,785	83,785
TOTALS	$10,058,020	$5,250,070
Type		
Competitive	$ 8,250,830	$3,442,880
Noncompetitive	457,190	457,190
Subtotal, Public	$ 8,708,020	$3,900,070
Federal Reserve	900,000	900,000
Foreign Official Institutions	450,000	450,000
TOTALS	$10,058,020	$5,250,070

1/ The average annual investment yield is 14.81%. This requires an annual investment yield on All-Savers Certificates of 10.37%.

R-729

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-566-2615

April 16, 1982

FOR IMMEDIATE RELEASE

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Acting Secretary, Federal Financing Bank (FFB), announced the following activity for the month of February 1982.

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies on February 28, 1982 totaled $112.4 billion, an increase of $0.4 billion over the January 31 level. FFB increased holdings of agency debt issues by $0.02 billion, holdings of agency guaranteed debt by $0.3 billion, and holdings of agency assets purchased by $0.06 billion. A total of 180 disbursements were made during the month.

Attached to this release is a table outlining FFB loan activity during January, a table outlining new FFB commitments to lend and a table summarizing FFB holdings as of February 28, 1982.

0

R-730

FEBRUARY 1982 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
ON-BUDGET AGENCY DEBT					
TENNESSEE VALLEY AUTHORITY					
#231	2/5	$355,000,000.00	5/7/82	14.448%	
#234	2/28	25,000,000.00	5/7/82	12.948%	
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership	2/19	55,000,000.00	2/19/02	14.445%	14.967 ann
DEPARTMENT OF HEALTH & HUMAN SERVICES					
Health Maintenance Organization Notes					
Block #21	2/23	1,209,513.40	various	14.403%	
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES					
Spain 3	2/1	1,199,879.55	9/25/89	14.348%	
Israel 8	2/1	15,000,000.00	9/1/09	14.256%	
Jordan 6	2/1	105,778.86	9/21/92	14.326%	
Philippines 7	2/1	94,833.81	9/10/87	14.348%	
Thailand 8	2/1	600,000.00	8/10/90	14.346%	
Spain 4	2/2	2,225,601.78	4/25/90	14.893%	
Spain 5	2/2	2,370,828.36	6/15/91	14.854%	
Turkey 7	2/2	2,784,449.00	6/3/91	14.837%	
Dominican Republic 4	2/4	130,504.14	8/5/88	14.913%	
Gabon 3	2/4	650,000.00	5/4/87	14.937%	
Somalia 1	2/4	1,785,000.00	9/1/92	14.843%	
Egypt 1	2/5	945,223.02	9/1/09	14.874%	
Israel 8	2/5	7,597,835.47	9/1/09	14.874%	
Jordan 6	2/5	2,493,843.03	9/2/92	14.931%	
Lebanon 3	2/5	444,595.00	7/25/87	15.000%	
Turkey 11	2/5	299,513.66	12/22/10	14.860%	
Jordan 6	2/9	864,649.68	9/21/92	15.049%	
Gabon 3	2/9	1,950,000.00	5/4/87	15.147%	
Somalia 1	2/9	4,221,387.00	9/1/92	15.030%	
Israel 8	2/10	13,000,000.00	9/1/09	15.093%	
El Salvador 3	2/10	65,824.57	4/15/93	15.102%	
Peru 7	2/10	9,002.14	2/15/88	15.194%	
Egypt 1	2/11	815,279.00	9/1/09	14.958%	
Egypt 1	2/16	16,122,334.28	9/1/09	14.839%	
Greece 13	2/16	550,000.00	9/22/90	14.932%	
Honduras 6	2/16	38,311.00	4/25/91	14.904%	
Philippines 7	2/16	574,246.62	9/10/87	15.007%	
Peru 6	2/16	9,289.11	1/15/87	15.035%	
Sudan 3	2/16	1,515,507.00	2/24/11	14.826%	
Turkey 6	2/16	11,233.45	6/3/88	14.999%	
Turkey 7	2/16	1,502,617.11	6/3/91	14.900%	
Jordan 6	2/17	274,708.46	9/21/92	14.758%	
Sudan 3	2/17	221,330.86	2/24/11	14.628%	
Turkey 8	2/18	16,117,405.00	6/15/10	14.598%	
Israel 8	2/19	1,028,509.25	9/1/09	14.377%	
Sudan 3	2/19	2,291,557.00	2/24/11	14.359%	
Thailand 6	2/19	79,836.00	9/20/85	14.927%	
Egypt 1	2/22	2,709,546.70	9/1/09	14.341%	
Sudan 3	2/23	1,859,849.35	2/24/11	13.929%	
Jordan 6	2/24	637,836.27	9/21/92	14.140%	
Spain 4	2/24	25,593.75	4/25/90	14.176%	
Spain 5	2/24	1,322,470.00	6/15/91	14.162%	
Philippines 7	2/25	652,902.95	9/10/87	14.176%	
Egypt 1	2/26	485,040.00	9/1/09	14.015%	
Indonesia 7	2/26	2,222,887.00	3/20/90	14.148%	
Israel 8	2/26	1,095,334.00	9/1/09	14.015%	
Jordan 6	2/26	9,513,000.00	9/21/92	14.107%	

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES (Cont'd)					
Tunisia 10	2/26	$182,089.68	10/1/93	14.087%	
Turkey 7	2/26	37,011.36	6/3/91	14.112%	
Turkey 9	2/26	600,482.00	6/22/92	14.087%	
Turkey 11	2/26	44,925.00	12/22/10	14.001%	
DEPARTMENT OF ENERGY					
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #2	2/18	7,000,000.00	7/1/82	16.505%	
Synthetic Fuels Guarantees - Defense Production Act					
TOSCO #13	2/1	5,382,884.27	10/1/07	14.275%	
TOSCO #14	2/8	2,287,174.48	10/1/07	14.778%	
TOSCO #15	2/16	1,021,887.86	10/1/07	14.867%	
TOSCO #16	2/22	2,082,915.94	10/1/07	14.368%	
GENERAL SERVICES ADMINISTRATION					
Series M-082	2/8	174,692.33	7/31/03	14.918%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant Guarantees					
*Allentown, Pennsylvania	2/1	562,487.00	2/1/85	14.325%	14.838% ann
°Sioux Falls, South Dakota	2/1	206,000.00	5/3/82	13.183%	
Detroit, Michigan	2/4	8,000,000.00	9/15/82	15.075%	15.172% ann
Lawrence, Massachusetts #2	2/22	50,000.00	1/1/83	15.015%	15.408% ann
Peoria, Illinois	2/26	200,000.00	2/1/83	14.175%	14.573% ann
Public Housing Notes					
Sale #18	2/8	53,809,369.14	various	14.589%	15.121% ann
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	2/22	7,750,000.00	10/1/92	14.484%	15.008% ann
RURAL ELECTRIFICATION ADMINISTRATION					
United Power #139	2/1	3,010,000.00	2/1/84	14.365%	14.116% qtr.
Arkansas Electric #142	2/1	6,534,000.00	2/1/84	14.365%	14.116% qtr.
Saluda River Electric #186	2/1	960,000.00	2/1/84	14.365%	14.116% qtr.
South Mississippi Electric #171	2/1	3,105,000.00	2/2/84	14.365%	14.116% qtr.
South Texas Electric #109	2/2	422,000.00	2/2/84	15.165%	14.888% qtr.
Basin Electric #87	2/3	862,000.00	2/3/84	14.975%	14.705% qtr.
*St. Joseph Tele. & Tele. #13	2/4	400,000.00	12/31/10	14.659%	14.400% qtr.
*Alabama Electric #26	2/4	7,600,000.00	2/4/84	15.055%	14.782% qtr.
*Arkansas Electric #142	2/4	27,221,000.00	2/4/84	15.055%	14.782% qtr.
*Arkansas Electric #97	2/4	5,088,000.00	2/4/84	15.055%	14.782% qtr.
*Golden Valley Electric #81	2/6	500,000.00	2/6/84	15.015%	14.743% qtr.
*Brazos Electric #144	2/7	962,353.25	2/7/84	15.015%	14.743% qtr.
Western Farmers Electric #220	2/8	2,193,000.00	2/8/84	15.015%	14.743% qtr.
Soyland Power #165	2/8	980,000.00	2/8/84	15.015%	14.743% qtr.
Western Farmers Electric #64	2/8	88,000.00	2/8/84	15.015%	14.743% qtr.
Western Farmers Electric #133	2/8	8,500,000.00	2/8/84	15.015%	14.743% qtr.
Western Farmers Electric #99	2/8	1,954,000.00	2/8/84	15.015%	14.743% qtr.
Allegheny Electric #175	2/8	2,973,000.00	2/29/84	15.275%	14.994% qtr.
Wolverine Electric #182	2/10	3,497,000.00	2/10/84	15.275%	14.994% qtr.
Wabash Valley Power #104	2/10	4,062,000.00	2/10/84	15.275%	14.994% qtr.
Wabash Valley Power #206	2/10	1,981,000.00	2/10/84	15.275%	14.994% qtr.
Northern Michigan Electric #101	2/10	89,000.00	2/10/84	15.275%	14.994% qtr.
Northern Michigan Electric #183	2/10	4,458,000.00	2/10/84	15.275%	14.994% qtr.
*Wolverine Electric #100	2/10	510,000.00	2/11/84	15.205%	14.926% qtr.

*Maturity Extension
°Rollover

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
*South Texas Electric #109	2/13	$2,000,000.00	2/13/84	15.195%	14.917% qtr.
*Northern Michigan Electric #101	2/13	1,438,000.00	2/13/84	15.195%	14.917% qtr.
*Colorado Ute Electric #78	2/13	776,000.00	2/13/84	15.195%	14.917% qtr.
*Colorado Ute Electric #78	2/15	2,779,000.00	2/15/84	15.195%	14.917% qtr.
*Sunflower Electric #151	2/15	8,000,000.00	2/15/84	15.195%	14.917% qtr.
*South Mississippi Electric #3	2/16	7,400,000.00	12/31/09	14.775%	14.512% qtr.
Seminole Electric #141	2/16	16,167,000.00	2/16/84	15.195%	14.917% qtr.
Colorado Ute Electric #198	2/16	540,000.00	2/16/84	15.195%	14.917% qtr.
San Miguel Electric #205	2/16	10,900,000.00	2/16/84	15.195%	14.917% qtr.
Basin Electric #137	2/16	25,000,000.00	2/16/84	15.195%	14.917% qtr.
New Hampshire Electric #192	2/16	7,760,000.00	2/16/84	15.195%	14.917% qtr.
East Kentucky Power #140	2/17	506,000.00	2/17/84	15.165%	14.888% qtr.
Chugach Electric #204	2/18	7,463,000.00	12/31/16	14.468%	14.215% qtr.
North West Telephone Co. #62	2/18	1,729,000.00	2/18/84	15.305%	15.023% qtr.
Colorado Ute Electric #96	2/18	873,000.00	2/18/84	15.305%	15.023% qtr.
East Kentucky Power #188	2/18	6,181,000.00	2/18/84	15.305%	15.023% qtr.
Oglethorpe Power #74	2/18	16,053,000.00	2/18/84	15.305%	15.023% qtr.
Oglethorpe Power #150	2/18	13,480,000.00	2/18/84	15.305%	15.023% qtr.
*South Mississippi Electric #3	2/18	112,000.00	2/15/85	15.135%	14.859% qtr.
East Kentucky Power #188	2/19	500,000.00	2/19/84	15.115%	14.840% qtr.
Quincy Telephone #11	2/19	858,000.00	2/19/84	15.115%	14.840% qtr.
Dairyland Power #54	2/19	1,154,000.00	2/19/84	15.115%	14.840% qtr.
Associated Electric #132	2/19	1,000,000.00	2/19/84	15.115%	14.840% qtr.
Basin Electric #137	2/19	15,000,000.00	2/19/85	14.935%	14.666% qtr.
*Big Rivers Electric #58	2/20	20,000.00	2/20/84	15.065%	14.792% qtr.
*Big Rivers Electric #65	2/20	138,000.00	2/20/84	15.065%	14.792% qtr.
*Big Rivers Electric #91	2/20	4,883,000.00	2/20/84	15.065%	14.792% qtr.
*Big Rivers Electric #136	2/20	560,000.00	2/20/84	15.065%	14.792% qtr.
Northwest Iowa Power #95	2/21	7,442,000.00	2/21/84	15.065%	14.792% qtr.
Colorado Ute Electric #68	2/22	10,012,000.00	2/22/84	15.065%	14.792% qtr.
Western Illinois Power #162	2/22	1,150,000.00	2/22/84	15.065%	14.792% qtr.
Central Electric Power #131	2/22	300,000.00	2/22/84	15.065%	14.792% qtr.
Big Rivers Electric #91	2/23	1,191,000.00	2/23/84	14.475%	14.222% qtr.
Big Rivers Electric #136	2/23	457,000.00	2/23/84	14.475%	14.222% qtr.
Big Rivers Electric #143	2/23	129,000.00	2/23/84	14.475%	14.222% qtr.
Big Rivers Electric #179	2/23	7,926,000.00	2/23/84	14.475%	14.222% qtr.
Colorado Ute Electric #203	2/23	1,505,000.00	2/23/84	14.475%	14.222% qtr.
Basin Electric #87	2/23	9,627,000.00	2/23/85	14.395%	14.145% qtr.
Orange City Telephone #10	2/25	501,000.00	2/25/84	14.365%	14.116% qtr.
Basin Electric #87	2/26	29,000.00	2/26/84	14.375%	14.125% qtr.
North Carolina Electric #185	2/26	7,084,000.00	2/26/84	14.375%	14.126% qtr.
Plains Electric G&T #158	2/26	7,336,000.00	2/26/87	14.135%	13.894% qtr.
*United Power #86	2/27	600,000.00	2/27/84	14.565%	14.309% qtr.
*Basin Electric #88	2/27	714,000.00	2/27/84	14.565%	14.309% qtr.
*Southern Illinois Power #38	2/28	2,225,000.00	2/28/84	14.565%	14.309% qtr.
*Southern Illinois Power #38	2/28	500,000.00	2/28/84	14.565%	14.309% qtr.
*Allegheny Power #93	2/28	3,622,000.00	2/28/85	14.565%	14.309% qtr.
SMALL BUSINESS ADMINISTRATION					
Small Business Investment Companies					
American Energy Invest. Corp.	2/24	1,000,000.00	2/1/85	14.395%	
Enervest Inc.	2/24	500,000.00	2/1/85	14.395%	
College Venture Equity Corp.	2/24	620,000.00	2/1/87	14.095%	
Grocers Capital Co. Inc.	2/24	500,000.00	2/1/87	14.095%	
Lincoln Capital Corp.	2/24	360,000.00	2/1/87	14.095%	
Livingston Capital LTD.	2/24	950,000.00	2/1/87	14.095%	
Lincoln Capital Corp.	2/24	360,000.00	2/1/89	14.015%	
Woodriver Capital Corp.	2/24	1,000,000.00	2/1/89	14.015%	
Brentwood Capital Corp.	2/24	1,000,000.00	2/1/92	13.995%	
Capital Resource Co. of Conn	2/24	600,000.00	2/1/92	13.995%	
Clinton Capital Corp.	2/24	650,000.00	2/1/92	13.995%	
EAB Venture Corp.	2/24	1,000,000.00	2/1/92	13.995%	
Fairfield Equity Corp.	2/24	200,000.00	2/1/92	13.995%	
The First Connecticut SBIC	2/24	950,000.00	2/1/92	13.995%	

*Maturity Extension

FEBRUARY 1982 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
SMALL BUSINESS ADMINISTRATION (Con'd)					
State & Local Development Companies					
San Diego County LDC	2/10	$500,000.00	2/1/97	15.040%	
Washington, DC LDC	2/10	242,000.00	2/1/97	15.040%	
Cert. Dev. Corp. of Southwest MO	2/10	200,000.00	2/1/97	15.040%	
The St. Louis LDC	2/10	137,000.00	2/1/97	15.040%	
Long Island LDC	2/10	123,000.00	2/1/97	15.040%	
Ocean State Business Dev. Auth.	2/10	110,000.00	2/1/97	15.040%	
Bay Colony Dev. Corp.	2/10	95,000.00	2/1/97	15.040%	
The St. Louis LDC	2/10	71,000.00	2/1/97	15.040%	
New Orleans City Wide Dev. Corp.	2/10	500,000.00	2/1/02	15.077%	
Jacksonville LDC, Inc.	2/10	432,000.00	2/1/02	15.077%	
Long Beach LDC	2/10	294,000.00	2/1/02	15.077%	
Forward Dev. Corp.	2/10	162,000.00	2/1/02	15.077%	
Long Island LDC	2/10	140,000.00	2/1/02	15.077%	
Cincinnati LDC	2/10	99,000.00	2/1/02	15.077%	
Grand Rapids LDC	2/10	92,000.00	2/1/02	15.077%	
Greater Spokane Bus. Dist.	2/10	80,000.00	2/1/02	15.077%	
Calexico Industrial LDC	2/10	55,000.00	2/1/02	15.077%	
Wilmington Industrial Dev. Co.	2/10	35,000.00	2/1/02	15.077%	
Los Medanos Funds Dev. Co.	2/10	500,000.00	2/1/02	15.077%	
Seattle King County Dev. Corp.	2/10	458,000.00	2/1/07	15.056%	
The Cleveland Area Dev. Fin. Corp.	2/10	205,000.00	2/1/07	15.056%	
Texas Cap. Dev. Co., Inc.	2/10	184,000.00	2/1/07	15.056%	
Bay Area Emp. Co.	2/10	166,000.00	2/1/07	15.056%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-82-5	2/26	388,528,028.41	5/28/82	12.726%	
DEPARTMENT OF TRANSPORTATION					
National Railroad Passenger Corp. (Amtrak)					
Note #29	2/11	2,500,000.00	4/1/82	14.949%	
Note #29	2/16	3,635,166.00	4/1/82	14.973%	
Section 511					
Milwaukee Road #2	2/26	237,496.00	6/30/06	14.017%	

FEDERAL FINANCING BANK

February 1982 Commitments

BORROWER	AMOUNT	GUARANTOR	COMMITMENT EXPIRES	MATURITY
Israel	$850,000,000.00	DOD	2/18/84	2/16/16
Jamaica	1,000,000.00	DOD	12/19/83	12/20/93
Albany Urban Renewal Agency	3,000,000.00	HUD	7/1/82	7/1/03

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	February 28, 1982	January 31, 1982	Net Change 2/1/82-2/28/82	Net Change 10/1/81-2/28/82
On-Budget Agency Debt				
Tennesee Valley Authority	$11,460.0	$11,435.0	$25.0	$586.0
Export-Import Bank	12,741.3	12,741.3	-0-	332.0
NCUA-Central Liquidity Facility	90.2	90.2	-0-	-11.1
Off-Budget Agency Debt				
U.S. Postal Service	1,288.0	1,288.0	-0-	-0-
U.S. Railway Association	197.6	197.6	-0-	-17.3
Agency Assets				
Farmers Home Administration	49,081.0	49,026.0	55.0	260.0
DHHS-Health Maintenance Org.	124.2	123.2	1.2	7.9
DHHS-Medical Facilities	150.5	150.5	-0-	-0-
Overseas Private Investment Corp.	23.6	23.6	-0-	-3.1
Rural Electrification Admin.-CBO	2,595.3	2,595.3	-0-	-0-
Small Business Administration	62.9	63.9	-.9	-4.5
Government-Guaranteed Loans				
DOD-Foreign Military Sales	9,885.0	9,776.7	108.4	737.4
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	700.0
DOE-Defense Production Act (TOSCO)	59.4	48.6	10.8	59.4
DOE-Geothermal Loans	35.1	35.1	-0-	18.1
DOE-Hybrid Vehicles	2.2	2.2	-0-	0.1
DOE-Non-Nuclear Act (Great Plains)	65.0	58.0	7.0	65.0
DHUD-Community Dev. Block Grant	86.9	79.2	7.7	12.6
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	1,320.2	1,266.4	53.8	391.7
General Services Administration	411.4	411.2	-.2	-1.2
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	29.6	29.6	-0-	-.3
NASA-Space Communications Co.	672.9	691.4	-18.5	35.2
Rural Electrification Admin.	13,989.1	13,836.4	152.8	1,646.6
SBA-Small Business Investment Cos.	640.6	631.5	9.1	36.7
SBA-State/Local Development Cos.	18.6	13.7	4.9	13.4
TVA-Seven States Energy Corp.	1,064.5	1,021.6	42.9	150.3
DOT-Amtrak	835.9	893.2	-57.3	56.0
DOT-Emergency Rail Svcs. Act	70.2	70.2	-0-	-0-
DOT-Title V, RRRR Act	119.6	119.4	.2	-4.0
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	112,367.4	111,965.4	402.0	5,067.1

*figures may not total due to rounding

// TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
April 16, 1982

CONTACT: Will Carney
566-5252

PERSONNEL CHANGES AT BATF

John M. Walker, Jr., Assistant Secretary (Enforcement and Operations), today announced that G.R. Dickerson, Director of the Bureau of Alcohol, Tobacco and Firearms (BATF), will move to the new position of Deputy Commissioner for International Affairs at the U.S. Customs Service.

Mr. Walker also designated Stephen E. Higgins, currently Deputy Director of the BATF, as the Bureau's Acting Director.

In his new position with the Customs Service, Mr. Dickerson will oversee the agency's participation in international organizations and trade affairs, including the Customs Cooperation Council and bilateral foreign Customs agreements, and will coordinate assistance to foreign Customs services. The creation of this office reflects the increasing importance of international matters in Customs operations and Customs' growing role in international trade policy. Mr. Dickerson previously served as Deputy Commissioner of Customs before his appointment as Director of BATF in 1979.

Stephen E. Higgins was appointed Deputy Director of BATF in 1979. Prior to this appointment, Mr. Higgins served as the Assistant Director for Regulatory Enforcement between 1975 and 1979. He was the youngest Assistant Director in the Bureau's history. Mr. Higgins joined the Bureau in 1961 as an inspector in Omaha, Nebraska.

R-731

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE April 19, 1982

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 4,701 million of 13-week bills and for $4,702 million of 26-week bills, both to be issued on April 22, 1982, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 22, 1982			:	26-week bills maturing October 21, 1982		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.869	12.386%	12.96%	:	93.610 a/	12.640%	13.69%
Low	96.829	12.545%	13.14%	:	93.554	12.750%	13.82%
Average	96.841	12.497%	13.08%	:	93.570	12.719% 2/	13.78%

a/ Excepting 2 tenders totaling $2,000,000.

Tenders at the low price for the 13-week bills were allotted 9%.
Tenders at the low price for the 26-week bills were allotted 42%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 49,585	$ 49,335	:	$ 65,265	$ 50,265
New York	7,770,225	3,063,725	:	6,914,050	3,043,370
Philadelphia	59,235	59,235	:	22,050	22,050
Cleveland	68,540	58,540	:	53,295	47,295
Richmond	48,495	48,495	:	49,565	49,565
Atlanta	68,645	68,645	:	58,455	57,955
Chicago	1,227,980	503,980	:	1,058,105	202,105
St. Louis	46,420	42,420	:	38,710	34,710
Minneapolis	25,955	25,955	:	33,630	33,620
Kansas City	57,925	57,925	:	43,100	43,100
Dallas	47,520	47,520	:	25,805	20,795
San Francisco	714,750	379,750	:	956,735	778,755
Treasury	295,630	295,630	:	318,130	318,130
TOTALS	$10,480,905	$4,701,155	:	$9,636,895	$4,701,715
Type					
Competitive	$ 8,276,375	$2,496,625	:	$7,212,375	$2,277,195
Noncompetitive	1,170,700	1,170,700	:	1,024,820	1,024,820
Subtotal, Public	$ 9,447,075	$3,667,325	:	$8,237,195	$3,302,015
Federal Reserve	807,630	807,630	:	800,000	800,000
Foreign Official Institutions	226,200	226,200	:	599,700	599,700
TOTALS	$10,480,905	$4,701,155	:	$9,636,895	$4,701,715

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 12.915%.

R-732

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. April 20, 1982

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 9,400 million, to be issued April 29, 1982. This offering will result in a paydown for the Treasury of about $375 million, as the maturing bills are outstanding in the amount of $9,770 million, including $1,442 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $1,627 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $4,700 million, representing an additional amount of bills dated January 28, 1982, and to mature July 29, 1982 (CUSIP No. 912794 BF 0), currently outstanding in the amount of $5,050 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $4,700 million, to be dated April 29, 1982, and to mature October 28, 1982 (CUSIP No. 912794 BR 4).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing April 29, 1982. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average prices of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them.

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

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, April 26, 1982. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on April 29, 1982, in cash or other immediately-available funds or in Treasury bills maturing April 29, 1982. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Section 454(b) of the Internal Revenue Code, the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed, or otherwise disposed of. Section 1232(a)(4) provides that any gain on the sale or redemption of these bills that does not exceed the ratable share of the acquisition discount must be included in the Federal income tax return of the owner as ordinary income. The acquisition discount is the excess of the stated redemption price over the taxpayer's basis (cost) for the bill. The ratable share of this discount is determined by multiplying such discount by a fraction, the numerator of which is the number of days the taxpayer held the bill and the denominator of which is the number of days from the day following the taxpayer's date of purchase to the maturity of the bill. If the gain on the sale of a bill exceeds the taxpayer's ratable portion of the acquisition discount, the excess gain is treated as short-term capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

002148
LIBRARY
APR 21 '82
DEPARTMENT

FOR IMMEDIATE RELEASE
April 19, 1982

Contact: Marlin Fitzwater
566-5252

U.S. RESTRICTS TRANSACTIONS RELATING TO TRAVEL TO CUBA

The Department of Treasury today announced new restrictions on travel-related transactions with Cuba. The effect will be to eliminate tourist and business travel to that country.

The restrictions will take effect on May 15.

John M. Walker, Jr., Assistant Secretary of the Treasury for Enforcement and Operations, said: "Today's actions are an important part of this government's policy of tightening the current trade and financial embargo against Cuba and are designed to reduce Cuba's hard currency earnings from travel by persons subject to the jurisdiction of the United States."

The changes remove the general authorization for transactions connected with travel to Cuba and limit such authorization to three principal categories of travel: official travel, travel by news media personnel and researchers, and humanitarian travel for purposes of family reunification with close relatives in Cuba.

Transactions relating to general tourist and business travel to Cuba are no longer authorized. However, Treasury authorization through specific licenses may be obtained in appropriate cases for persons wishing to travel to Cuba for humanitarian reasons other than family reunification or for purposes of participation in public performances or exhibitions.

The most recent twelve-month statistics indicate that approximately 38,000 people visited Cuba from the United States, of which approximately 40% travelled for purposes other than family reunification.

The current program restricting trade and financial transactions with Cuba dates back to 1963. Since then, all such transactions have been regulated by the Treasury Department's Office of Foreign Assets Control. Any transaction with Cuba by a U.S. company or individual must be authorized by a general or specific license from that Office.

R-734

DEPARTMENT OF THE TRE[illegible]

Office of Foreign Asset[illegible]ntrol

31 C.F.R. Part 515

Cuban Assets Control Regulations:

Travel-Related Transactions

AGENCY: Office of Foreign Assets Control

ACTION: Final Rule

SUMMARY: The Office of Foreign Assets Control is amending section 515.560 of the Cuban Assets Control Regulations to reduce Cuba's hard currency earnings from travel by U.S. persons to and within Cuba. As amended, the general license for travel-related transactions set forth in section 515.560 will be limited to travel for specified purposes, including official travel, visits to close relatives, and travel connected with research, newsgathering, or similar activities. Transactions relating to ordinary tourist or business travel will no longer be permitted. However, specific licenses may be granted in appropriate cases for humanitarian reasons or for purposes of public performances in Cuba, as in connection with cultural or sports-related activities.

The processing and payment of credit card instruments, and transactions in connection with the extension of credit to any person in Cuba, are no longer authorized.

EFFECTIVE DATE: May 15, 1982

FOR FURTHER INFORMATION CONTACT: Raymond W. Konan, Chief Counsel, Office of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220, tel. (202) 376-0236.

SUPPLEMENTARY INFORMATION: Since the Regulations involve a foreign affairs function, the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rulemaking, opportunity for public participation, and delay in effective date are inapplicable.

Similarly, because the amendment is issued with respect to a foreign affairs function of the United States, it is not subject to Executive Order 12291 of February 19, 1981, dealing with Federal regulations.

31 C.F.R. Part 515 is amended as follows:

Section 515.560 is amended to read as follows:

515.560 Certain transactions incident to travel to and within Cuba. [Amended]

(a)(1) General License. The transactions in paragraph (c) of this section are authorized in connection with travel to Cuba by (i) persons who are officials of the United States Government or of any foreign government, or of any intergovernmental organization of which the United States is a member, and who are traveling on official business; (ii) persons who are traveling for the purpose of gathering news, making news or documentary films, engaging in professional research, or for similar activities; or (iii) persons, and persons traveling with them who share a common dwelling as a family with them, who are traveling to visit close relatives in Cuba.

(2) For purposes of this section, the term "close relative" means spouse, child, grandchild, parent, grandparent, uncle, aunt, brother, sister, nephew, niece, first cousin, or spouse, widow, or widower of any of the foregoing.

(3) The general license contained in this section does not authorize transactions in connection with tourist travel to Cuba, nor does it authorize transactions in connection with business travel undertaken for any purposes other than those set forth in paragraph (a)(1) of this section.

(b) Specific Licenses. Specific licenses authorizing the transactions in paragraph (c) of this section will be issued in appropriate cases to persons desiring to travel to Cuba for humanitarian reasons, or for purposes of public performances, public exhibitions, or similar activities.

(c) The following transactions are authorized in connection with travel to and within Cuba by persons licensed under paragraphs (a) and (b) of this section:

(1) All transportation-related transactions ordinarily incident to travel to and from Cuba.

(2) All transactions ordinarily incident to travel within Cuba, including payment of living expenses and the acquisition in Cuba of goods for personal consumption there.

(3) The purchase in Cuba, and importation as accompanied baggage, of merchandise with a foreign market value not to exceed $100 per person. This authorization may be used only once in every six consecutive months. Single copies of publications do not count against the $100 limit set forth in this subparagraph.

For purposes of this section, the term "publications" includes books, newspapers, magazines, films, phonograph records, tapes, photographs, microfilm, microfiche, posters, and similar materials. All merchandise and publications obtained pursuant to this subparagraph shall be for noncommercial use only and shall not be resold.

(4) All transactions by any person incident to arranging or assisting travel by any other person or group of persons to, from, or within Cuba. This authorization includes arranging through transportation to Cuba; selling passage aboard a foreign carrier providing regularly scheduled service to Cuba from points outside the United States; chartering an aircraft or vessel; arranging hotel accommodations; ground transportation, local tours and similar travel activities in Cuba; transfer of funds to Cuba or any national thereof; and receipt from Cuba or a national thereof of consideration for authorized services.

(5) All transactions concerning aircraft or vessels incidental to their nonscheduled flights or voyages to, from, or within Cuba. This subparagraph does not authorize the carriage of any merchandise to and from Cuba, except accompanied baggage and merchandise, including publications, authorized by subparagraph (c) (3) of this section.

(6) All transactions incident to the processing and payment of checks, drafts, traveler's checks, and similar instruments negotiated in Cuba by any person under the authority of this section.

(d) (1) This section does not authorize the processing and

payment by persons subject to U.S. jurisdiction, such as credit card issuers or intermediary banks, of credit card instruments (e.g., vouchers, drafts, or sales receipts) for expenditures in Cuba, and does not authorize a domestic credit card issuer, or a foreign credit card firm owned or controlled by U.S. persons, to deal with a Cuban enterprise or with a third-country party, such as a franchisee, in connection with the extension of credit to any person in Cuba.

(2) Persons subject to U.S. jurisdiction are hereby authorized to process and pay credit card instruments for expenditures in Cuba where such instruments are dated prior to May 15, 1982. The authorization contained in this subparagraph shall expire at the close of business on July 15, 1982.

(e) Persons who travel to Cuba for the purpose of gathering news, making news or documentary films, engaging in professional research, or for similar activities are authorized to acquire and import into the United States, as accompanied baggage or otherwise, such publications, as defined in subparagraph (c)(3) of this section, as are directly related to their professional activities, without limitation as to value. Such merchandise may be acquired and imported only for their own professional use or that of their employers at the time of the travel, and may not be sold to other persons.

(f) Persons who travel in Cuba pursuant to provisions of this section shall not become nationals of Cuba solely because of such travel. This paragraph does not authorize any transaction prohibited by any other section of this part.

(g) This section does not authorize any person subject to the jurisdiction of the United States to make any investment in Cuba, establish any branch or agency in Cuba, or transfer any property to Cuba, except transfers by or on behalf of individual or group travelers, and aircraft or vessels, as expressly authorized in this section.

Dated: April , 1982

Dennis M. O'Connell
Director

Approved: ______________________

John M. Walker, Jr.
Assistant Secretary

TREASURY NEWS

partment of the Treasury • Washington, D.C. • Telephone 566-204

For Release Upon Delivery
Expected at 9:30 a.m.
April 21, 1982

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON SAVINGS, PENSIONS, AND INVESTMENT POLICY

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to appear before you today to discuss the Federal tax features of the Administration's enterprise zone program.

The enterprise zone program is an experimental initiative designed to relieve economic distress in inner cities and rural towns. The program is structured to create a free-market environment in depressed areas through the removal of government burdens. This should create and expand economic opportunities within the zones leading to an expansion of economic activity and the creation of jobs within these areas. While the Federal tax incentives are an important part of the program, unlike many of the past programs to deal with the economic problems of depressed areas, the success of the enterprise zone program will depend largely on contributions made by the State and local governments through improved services and through relief of local taxes, regulations, and other burdens that may inhibit economic activity in these designated areas. In addition, the program is dependent upon the involvement of private organizations. Efforts will be made to experiment with private firms providing traditional city services, and more involvement by private-sector neighborhood organizations will be encouraged.

Since the enterprise zone concept is designed to create a free-market environment for business, the intent is not to foster a particular kind of business activity. The Federal tax features of the program therefore contain strong incentives for labor-intensive businesses and the creation of jobs through employment credits, and also include a number of tax credits and other incentives for the formation of capital. On the whole, the effect of the Federal tax package will be to reduce significantly the tax payable by employers on ordinary income generated by activities in designated zones, eliminate entirely the capital gains tax on certain types of property used primarily within the zones, retain the currently favorable rules for exempt small issue industrial development bonds issued with respect to zone activities, and provide income tax relief for qualified employees of firms doing business within a designated zone.

I would now like to outline the major features of the Federal income tax incentives for businesses operating within a designated zone area.

A. Credits for Employers.

There are two separate payroll credits for employers doing business in the zones. One is designed to encourage the creation of new employment generally, and the other is a targeted incentive to encourage the hiring and training of certain disadvantaged individuals.

These payroll credits will be nonrefundable and will be available only with respect to "qualified employees," those who perform 50 percent or more of their services within an enterprise zone and at least 90 percent of whose services are directly related to the zone business. The amount of these credits will reduce the employer's deduction for wages. No zone credit is allowed with respect to individuals to whom the credits relating to the current work incentive programs or the general targeted jobs tax credit are claimed. For zones lasting between 21 and 24 years, both credits will phase out during this period, declining by 25 percent per year.

1. Credit for increased enterprise zone employment.

The general payroll credit for enterprise zone employers will be equal to 10 percent of their "qualified increased employment expenditures." This is the amount by which the payroll for qualified employees in any taxable year exceeds the payroll for the base period, which is the 12-month period prior to zone designation. Qualified wages are limited to

2-1/2 times the FUTA wage base (currently $6,000) per employee. Thus, the current maximum credit for qualified increased employment expenditures will be 10 percent of each employee's wages up to $15,000, or $1,500 per employee.

The 10-percent credit is designed to attract labor-intensive business activities to the enterprise zone areas and encourage firms already operating within those areas to expand. With a cap of $15,000 on wages to which the credit applies, the incentive is focused on jobs for unskilled workers and those with some training but still in the lower middle income brackets.

The credit is available to all employers for the qualified workers they employ within the zones, regardless of how many workers they employ elsewhere or what business activities they engage in outside of the zones. The credit will apply to wages paid by existing firms to net, additional workers, representing an increase in the firm's work force, subject to the annual maximum wage cap per worker. The credit will also apply to increased wages paid to existing workers and wages paid to replacement workers, above the total sum of wages paid to the former workers, all subject to the maximum annual wage cap per worker. The credit does not apply, however, to the existing payroll of an existing business within a zone at the time it is so designated, nor does it apply to a worker hired by such a firm to replace a former, pre-zone worker making the same wage.

As an example of how the credit is to work, assume that in a 12-month period prior to zone designation an employer employs two persons, A and B, at an annual salary of $12,000 each in an area which is to be designated as an enterprise zone. Since the employer's $24,000 pre-zone payroll is within the $15,000 per employee limit, that amount represents the base period wages. If after zone designation the employer gives each employee a raise of $1,000 per year, the employer's qualified payroll is $26,000 and its qualified increased employment expenditures are $2,000, qualifying it for a credit of $200. If in the next year the employer gives A a $5,000 raise (to $18,000), B a $2,000 raise (to $15,000), and hires a new employee, C, at an annual salary of $9,000, the employer's qualified payroll would increase to $39,000 ($15,000 of the $18,000 paid to A, $15,000 paid to B, and the entire $9,000 paid to C). This exceeds the $24,000 base period wages by $15,000, and the employer qualifies for a credit of $1,500.

2. Credit for employment of disadvantaged individuals.

In addition to the general payroll credit, enterprise zone employers will also be eligible for a special credit for wages paid to qualified employees who are disadvantaged individuals. This credit will be 50 percent of wages paid (without limit) to each disadvantaged worker during each of the first 3 years of employment, declining by 10 percent per year thereafter. On the day such individuals are hired, the individual must have received (or applied in writing for) a certification from a designated State employment security agency that such individual falls within one of the qualified categories.

This special credit is the strongest tax incentive ever provided for the hiring of disadvantaged workers. The 3-year duration and the phaseout will provide the employer with sufficient time to undertake a long-term training program addressed to the needs of the most disadvantaged workers. The definition of disadvantaged workers for purposes of this credit is focused on low-income and hard-to-employ individuals. The categories of disadvantaged individuals are:

(1) Vocational rehabilitation referrals. These include individuals who are physically or mentally handicapped and who have completed a vocational rehabilitation program;

(2) Economically disadvantaged individuals. These are persons who are members of a family that had an annual income equal to or less than that which an eligible family with no income would receive in food stamps plus AFDC benefits;

(3) Foster children. Individuals in this category include persons receiving State or local benefits under a program to assist foster children;

(4) SSI recipients. These are recipients of supplemental security income benefits for the aged, blind, and disabled under Title XVI of the Social Security Tax Act;

(5) General assistance recipients. These are individuals who are, within 60 days prior to hiring, receiving assistance under a State or local program which provides general assistance based on need and consists of money payments;

(6) Handicapped individuals. These are persons who are disabled and living at home or who are institutionalized, or who are a client of a sheltered workshop, prison, hospital, or similar institution, or in community care;

(7) Eligible AFDC recipients. These would include individuals qualifying for financial assistance under Part A of Title IV of the Social Security Tax Act who have received such assistance during the 90-day period immediately preceeding the hiring date.

The credit will be available to all employers for the disadvantaged workers they employ within the zones, regardless of the number of workers or amount of business conducted elsewhere. Additionally, the credit will apply only to disadvantaged workers hired after designation of the zone in which they are employed. These workers do not have to represent net additional workers or an increase in their employer's work force. The credit will therefore not apply to the past payroll of an existing business in a zone, but will apply, for example, to the replacement with disadvantaged workers of workers lost through attrition. Since the credit is intended to encourage the training and permanent employment of these disadvantaged individuals, the credit, with certain exceptions, generally will be recaptured if an individual is dismissed or fired within a year after being hired.

B. Employee Credits.

In addition to the regular and special payroll credits, an enterprise zone employer's payroll costs will be reduced by the allowable employee credit. An employee working in an enterprise zone will be entitled to a nonrefundable credit equal to 5 percent of wages paid for services performed within the enterprise zone, up to 1-1/2 times the FUTA wage base (currently $6,000). Thus, the current maximum credit will be 5 percent of $9,000, or $450. This credit will not be included in taxable income.

The tax credit will increase take-home pay to qualified employees who work in the zone. Such a benefit will be important to inducing workers to accept employment within the zones which may initially be somewhat undesirable places to work. For zones lasting between 21 and 24 years, the credit will phaseout during this period, declining by 25 percent per year.

C. Investment Tax Credit for Enterprise Zone Property.

As I mentioned earlier, the Federal tax incentives contain not only strong incentives for labor-intensive businesses, but also provide stimulus for capital investment in the zones through special investment tax credits and a capital gains exclusion.

With respect to tangible depreciable property used in the active conduct of a trade or business in an enterprise zone, a nonrefundable investment tax credit will be provided in addition to the regular investment tax credit. An additional 3-percent credit will be provided for property currently within the 3-year ACRS property class and an additional 5-percent credit will be available for all other depreciable tangible personal property. The 3- and 5-percent credits basically increase the regular investment tax credit by 50 percent. To be eligible for the credit, the personal property must be used predominately within the enterprise zone in a trade or business conducted in the zone. This will prevent the taking of the credit for highly mobile capital with only superficial connections to the zone.

With respect to real property, to encourage the development of commercial and industrial structures in zone areas, a 10-percent credit is provided for new construction and reconstruction of buildings in an enterprise zone after designation. The basis in real property will be reduced by the amount of the credit claimed.

The credits will apply only to capital investment made in a zone after it is so designated. Existing businesses in the zones will not receive any tax benefit for their past investment. These businesses will, however, be able to take the credit for all new investments whether to replace worn out capital currently in use or to increase capacity. Property which is sold or removed from an enterprise zone will be subject to a partial recapture of the credit equal to the percentage derived by dividing the number of years the property was used by the taxpayer by the life of the asset for earnings and profits purposes.

D. Capital Gains Exclusion.

The favorable tax treatment accorded capital gains within enterprise zones should stimulate investment in the zones by real estate developers and by entrepreneurs and venture capitalists seeking to start and build up new businesses. This should attract to the zones new, small

businesses with substantial growth potential. More generally, the incentive will encourage capital investments within the zone areas.

Specifically, qualified enterprise zone capital gains will not be subject to tax. A qualified enterprise zone capital gain is defined as a long term capital gain from the sale of qualified property. Qualified property is tangible personal property and real property used by the taxpayer predominately in the active conduct of a trade or business in an enterprise zone, or it may be an interest in a corporation, partnership, or other entity, if for the 3 most recent taxable years of the entity ending before the date of disposition, the entity conducted a qualified business. A qualified business is an active trade or business conducted within an enterprise zone, with respect to which at least 80 percent of the gross receipts were attributable to such active conduct of a trade or business, and substantially all the tangible assets of which are located within an enterprise zone.

Special rules are provided which are designed to curtail the potential for abuse in this area. For example, gain from the sale of an interest in a qualified business will not qualify for exclusion to the extent it is attributable to: (1) any property contributed to the business within the previous 12 months, (2) any interest owned by a qualified business in any other business which is not a qualified business, and (3) any other intangible property owned by the qualified business which was not created as part of a active trade or business within an enterprise zone after designation of the area as an enterprise zone.

These special capital gains provisions will continue to apply after zone designation lapses until the first time each item or otherwise qualified property was sold or exchanged. This would assure investors that they will be able to receive the benefit of this incentive and avoid a rush to sell zone property when the end of the zone period approaches.

E. Small Issue Industrial Development Bonds.

In addition to the additional investment tax credits and special rule for zone capital gain, preservation of the present rules for small issue industrial development bonds will help small businesses to obtain low-cost financing to begin or expand their ventures.

The Administration is currently proposing that certain changes be made in the rules applicable to obligations, the interest on which is exempt from Federal income tax.

However, except for certain proposed amendments to arbitrage restrictions and the registration of tax-exempt bonds, the present rules for small issue IDB's will remain in effect during the entire period for which an area is designated as an enterprise zone notwithstanding any subsequent amendments to those provisions.

F. Extension of Carryover Periods.

The last major feature of the Federal tax incentives is an extension of the carryover period for operating losses and credits.

Present law allows a firm sustaining losses in one year to deduct those losses in future, profitable years. Similarly, if a firm has insufficient tax liability to take advantage of all of its credits in one year, it may take those credits against income tax liability in future years. The carryover period for operating losses and credits is 15 years.

Under the enterprise zone program, any net operating loss generated from the active conduct of a trade or business within an enterprise zone and any credits for enterprise zone employment or for investment in property used in an enterprise zone business, may be carried over for the longer of 15 years or the period of time for which a designation as an enterprise zone is in effect.

New businesses generally suffer losses in their initial years, and it may be several more years before they have sufficient pre-tax income against which to deduct these losses or tax liability to be offset by their available tax credits. Extending the carryover period and allowing the zone credits to be carried over will, therefore, reduce the risk of starting a new business. This is particularly true for small businesses which may not have nonzone income against which to deduct their losses, as larger firms usually have.

G. Revenue Estimates.

Because we are not certain of the number, size, and characteristics of the actual zones to be designated, the revenue estimates were based on a representative zone containing 10,000 employees. The estimates therefore can be expected to change as the zones are actually designated by HUD. Also, the revenue costs increase in future years as the number of zones and business activity within each zone increase. The projected revenue losses for the first several year are:

Fiscal Years

1982	1983	1984	1985	1986	1987
		($ billions)			
--	0.1	0.4	0.8	1.0	1.3

You will note that these revenue estimates differ from those shown in the President's Budget Message which projects losses of $0.1 billion in 1984 and $0.5 billion in 1985. This is because at the time the Budget was being prepared for printing, the draft bill was incomplete and the timing of its introduction uncertain. Assuming Congress passes enterprise zone legislation this year, we now expect that the first zones could be designated in early 1983, and our revenue estimates were revised to take this into account.

Conclusion

The enterprise zone program is not just another attempt to solve a problem by throwing money at it. Rather, it represents a fresh approach for dealing with the problems of economically distressed areas. Unlike the programs put forth in the past, enterprise zones will spur economic activity by removing one of the largest barriers to its growth -- excessive governmental regulation. We are confident that the total program contains all the necessary ingredients to make it a complete success and I urge you to lend your support to our efforts.

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
April 22, 1982

Statement By Lachlan W. Seward
Acting Executive Director
Chrysler Corporation Loan Guarantee Board
Before the Subcommittee on Economic Stabilization of the
House Committee on Banking, Finance and Urban Affairs

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to address the progress made by Chrysler Corporation in meeting the objectives of the Chrysler Corporation Loan Guarantee Act. I will leave any detailed discussion of the state of the automobile industry to the other witnesses you have asked to testify.

As I am sure you are aware, the past two years have been extremely difficult ones for the automobile industry. The domestic auto industry as a whole has experienced an unprecedented recession brought about by increases in car prices consistent with pervasive patterns of high inflation and interest rates.

It is not surprising then that despite the best efforts of the industry to adapt to this new environment there have been serious dislocations. Since Chrysler has been under the guarantee program, the four major domestic auto makers have collectively lost $5.5 billion. Sales volume for automobiles has fallen from 10.6 million units in 1979 to 8.5 million units in 1981. The number of dealerships has also contracted, from 23,379 in 1979 to 21,571 by the end of 1981. Taking advantage of new found customer preferences for smaller cars, imports attained a greater than 25 percent share of the market by the end of 1981.

Chrysler has fared reasonably well in the face of this challenge. In the first six months of 1981, Chrysler was ahead of its operating plan sales volume. The company was the only domestic auto maker to increase its sales volume and market share in 1981. Even so, the company lost $476 million for the full year due to costly marketing and incentive programs in the beginning of the year followed by a precipitous drop in volume during the second half of the year. While worse than the $253 million 1981 loss originally anticipated in Chrysler's plans, the actual deficit for 1981 represents a $1.2 billion improvement over 1980's results.

Chrysler's achievements during this period resulted from a reduction in fixed costs and adaptation of the company to changing conditions. The company's product development program has emphasized front wheel drive technology. Fixed costs and manpower have been reduced so that the breakeven point is now one half of what it was when the loan guarantee program started. The company has reached agreements with its lenders to eliminate $1.3 billion in restructured debt from its balance sheet, reducing interest costs by $200 million. In accordance with the Loan Guarantee Act Chrysler negotiated substantial concessions from labor in order to reduce costs. Lower labor costs were obtained in the face of additional concessions granted by Chrysler's other major constituents, including non-union employees, suppliers and lenders. Finally, Chrysler has recognized the value of raising additional cash resources both as a defensive measure in the face of the prolonged automobile industry recession, and as a means to attract additional capital. These funds, which now total approximately $900 million, were created largely through certain deferrals, the sale of a major asset, Chrysler Defense Inc., and improvements in the management of working capital.

The Act requires that Chrysler submit, and the Board review, new four-year operating plans each December. Pursuant to Section 4 of the Loan Guarantee Act, the Board must be assured that the operating plan demonstrates "the ability of the Corporation to continue operations as a going concern in the automobile business ..." In February, the Board completed its examination of the company's plan for 1982-1985. The plan was accepted by the Board as satisfying the requirements of Section 4 of the Act. The Board made its findings on the basis of several factors. First, Chrysler has produced evidence of having restructured itself defensively while enhancing its ability to take advantage of any recovery in the automobile market. Second, the combination of the cash already available plus additional sources of cash should allow Chrysler, with prudent management, to weather any difficulties in the 1982-1983 period and to implement the 1983 product plan needed to retain the company's competitive position after 1985. Third, the union is expected to maintain an attitude of concern and responsiveness to Chrysler's prospects for recovery in the upcoming collective bargaining negotiations.

Thus far in 1982 we have yet to see signs of a pickup in automobile sales. The first quarter seasonally adjusted annual rate of sales was 6 million units compared to 7.4 million units last year at the same time. Industry forecasts now call for an annual total of 8.7 million units, down from a consensus forecast of 9.2 million units when the Chrysler plans were approved. Chrysler has thus far in 1982 demonstrated an ability to maintain its market share. Chrysler truck sales, with their higher margins, have also shown an increase over both 1981 and the operating plan. However, operating performance, which was generally ahead

of plan in the first quarter, cannot be expected to persist if a continuation of the recession in the industry results in lowered volume, costly sales incentive programs and inadequate pricing relief. Pressure on profit margins will be great. Compounding this problem is the present uncertainty regarding union negotiations in the wake of concessions given to Ford, GM and AMC subsequent to the Board's review of the plans. Independent consultants for both Chrysler and the Board have stressed the importance to Chrysler's margins of maintaining the current level of labor concessions relative to its competitors. We cannot gauge the willingness of the unions to make the further concessions necessary for Chrysler to maintain the differential with its competitors or the extent to which Ford and GM will use reduced labor costs to lower prices or increase rebates. In short, there are substantial near-term risks which could negatively affect Chrysler's operating performance.

To date, Chrysler has acted to meet the objectives of the Act. It has made efforts to achieve long-term viability. It has met or exceeded the requirements in the Act regarding concessions from constituents. It has performed according to its obligations under the Guarantee Agreement for the protection of the government's interest in the guarantees. We believe the company can attain consistent operating profitability if the automobile market recovers and are encouraged by the steps Chrysler has taken both to position itself defensively against a continued lackluster automobile market and to take advantage of any recovery when it occurs. For our part, we will exercise diligence in monitoring the Chrysler guarantee while continuing to adapt our administration of the guarantee to uncertain and constantly changing circumstances.

I would be pleased to answer any questions.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE   April 21, 1982

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $5,252 million of $10,563 million of tenders received from the public for the 2-year notes, Series R-1984, auctioned today. The notes will be issued April 30, 1982, and mature April 30, 1984.

The interest coupon rate on the notes will be 13-7/8%. The range of accepted competitive bids, and the corresponding prices at the 13-7/8% coupon rate are as follows:

	Bids	Prices
Lowest yield	13.95%	99.873
Highest yield	14.02%	99.754
Average yield	13.98%	99.822

Tenders at the high yield were allotted 13%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 97,255	$ 61,515
New York	8,502,855	4,034,775
Philadelphia	77,500	77,500
Cleveland	101,495	83,645
Richmond	115,440	82,590
Atlanta	86,750	79,280
Chicago	735,965	330,495
St. Louis	115,315	103,010
Minneapolis	56,715	51,105
Kansas City	81,205	81,205
Dallas	40,240	40,240
San Francisco	546,340	220,500
Treasury	6,320	6,320
Totals	$10,563,395	$5,252,180

The $5,252 million of accepted tenders includes $1,174 million of noncompetitive tenders and $3,678 million of competitive tenders from private investors. It also includes $400 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition to the $5,252 million of tenders accepted in the auction process, $525 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

R-737

TREASURY NEWS

)epartment of the Treasury • Washington, D.C. • Telephone 566-2041

Remarks by
Donald T. Regan
Secretary of the Treasury
Before the
Chamber of Commerce
Thursday, April 22, 1982

Thank you Dixie. It's good to be here with so many of Washington's old hands. I realize these are difficult times for Washington reps. Administration and Congressional officials are involved in secret negotiations. There is almost an economic news blackout. And yet taxes remain front page news.

First we have the clandestine budget negotiations and the role of taxes in that process. I've had so many secret meetings in the last three weeks that my whereabouts are like that old hair color commercial: only my driver knows for sure.

Then we have the filing of taxes and what President Reagan is going to do with his $14 refund.

Then we have the underground economy, the tax gap, the leasing flap and more speculation about the actual size of the deficit.

All of these issues are important. But I suspect they're a little more urgent to those of us who play the "inside Washington" game that they are to the rest of the country. If nothing else, they keep us from occasionally taking a step back to reflect on our values. So this morning I would like to move on for a moment to a broader discussion of what this Administration stands for, and what I stand for. It is a particularly fitting discussion for this audience because the

subject is capitalism. And I believe it represents the strength of this nation.

There should be no doubt that our Founding Fathers fully intended this land to be one of commerce, encouraging creativity, risk-taking, investment and moral responsibility. By the year 1800 there were more private business corporations in the infant United States than in all of Europe combined.

It's been said that it's hard to write a poem about moneymaking or sing an inspiring song about the marketplace. The theoretical equality of socialism seems much more attractive and noble. But all we have to do is look around us to see the proof that America has been the glory of modern times.

We capitalists have brought light where before there was darkness, heat where there was only cold, medicines where there was sickness and disease, food where there was scarcity, and wealth where humanity was living in squalor.

We must look beyond the theory to find the morality of capitalism, but we needn't look too far. We have only to see its effects to realize that democratic capitalism has lifted the standard of living for more people in more places in a shorter period of time than any other system in the history of mankind.

Alexander Hamilton, the first Secretary of Treasury, made clear that maintenance of good credit, the paying of public debts, was essential for both the Nation and its citizens. He said "good faith" was key to our success, explaining, "States, like individuals, who observe their engagements, are respected and trusted: while the reverse is the fate of those, who pursue an opposite conduct." He cited "moral obligation," and said, "in the order of Providence" there is a connection "between public virtue and public happiness."

The philosophy of capitalism that I have just gone through is also at the heart of this Administration's economic policy. The same key elements -- the natural, human drive to make a better life; the risk-taking and the faith in the entrepreneurial spirit -- are also the keys to the President's program for economic recovery.

President Reagan believes, as I do, that big government has been booming out of control in the last few decades while our economy has limped from one recession to another. We don't believe the system has suddenly failed us, that it has outlived its usefulness, or that it is too simple for today's complex world. We believe that some of our leaders have failed the system.

As the tax burden has escalated -- increasing more than 200 percent in the last ten years -- and as social spending has mushroomed -- Government outlays in the same period went up by 300 percent -- the values of work and family were slowly being eroded.

In the last 15 years, the cost of our food stamp program has gone up more than 16,000 percent. In just 10 years Medicaid and Medicare have increased by more than 500 percent. At the same time inflation and interest rates were soaring, unemployment was climging and the misery index for Americans hit an all-time high.

There is no question that we in this country have a solemn obligation to take care of our needy, to feed those who are hungry and shelter those who are cold. Our elderly must be allowed to live out their lives in security and dignity.

We do not propose to abandon those values nor undo that style of compassionate life known as the American Way. Far from it, we are desperately trying to save it.

On behalf of the young couple whjo dreams of buying their own home, we are struggling to wring out inflation and bring these intolerable interest rates down.

On behalf of those who have no jobs, we have proposed programs that will provide them work. We have created new incentives for small business and for industry, incentives that will result in new jobs and new opportunities.

On behalf of our elderly, our handicapped and our disadvantaged we have reaffirmed our commitment and redoubled our efforts to protect them from the inflation that has been ravaging their pensions.

On behalf of all Americans, we are returning our government and our economy to the people.

After too many decades of more and more spending and more and more taxing, our program for economic recovery returns sane fiscal policy to Washington. The joke is that if you laid all the economists in Washington end to end they'd never reach a conclusion, but the truth is that the economic advisors in Washington have consistently believed that all our problems would go away if only we would spend more. So our leaders taxed more and then spent even more than that.

At a time when automobile workers are suggesting their own pay cuts just to keep their jobs, this Administration has no intention of succumbing to the spending addiction so rampant in the Congress. At a time when salary increases are no longer just falling behind but the wages themselves are being cut, well, the Administration believes big government should tighten its belt, as well.

An all-intrusive Federal Government never has worked and it never will, and it is time some people in Washington realized the

rest of the country is tired of it.

Let me be very clear that we in the Reagan Administration wholeheartedly believe that economic sanity includes balancing the Federal budget. I wouldn't mind if balancing the budget every year became a requirement of the Constitution. But I don't think the way to do it is by making that auto worker's check even smaller. We refuse to balance the budget on the back of the already weary American taxpayer.

You see, we believe in the American system. We appreciate what the incentives and motivations of capitalism have done for this country and the world. We propose to unleash them again. We intend to put the entrepreneurial spirit back in the center of our economy so once again it can be the wellspring of progress and the promise of a better life for all our people.

Let me also set the record straight. Although we were able to pass, last year, the largest budget cuts in history, these cuts only slowed the rapid increase in government spending. And although our 3-year, across-the-board, 25 percent tax rate reduction is the largest tax cut working Americans have ever experienced, it also only offsets the incredible increase already scheduled in our taxes.

Although we are now engaged in a process known as the "budget negotiations," we are really debating a far larger proposition. We are struggling with a definition of government and it is the language of numbers, busget numbers, that will ultimately portray the outcome.

This is not a new issue. It was debated more thoroughly in the last Presidential campaign than at any point in the last 50 years. And Ronald Reagan was elected President on the basis of that debate. Since that time you in the Chamber of Commerce have stood beside the President on one issue after another.

You were instrumental in passing last years budget cuts.

You were instrumental in passing the Economic Recovery Tax Act.

And you have provided support and strength to this President and this Administration on one issue after another. So I come before you this morning to say thanks. We know where the Chamber of Commerce stands.

And you know where we stand.

This Administration is serious about getting the runaway deficits under control. Because even though there may be no economic facts that link high budget deficits to high interest rates, the reality of life tells us that the marketplace and the consumer perceive there to be a relationship. And I don't need to tell anyone in this room about the first fundamental rule of Washington -- perception is reality.

But reality doesn't mean that in the face of tough times this President has to abandon the hard-fought victories of last year -- the victories that would not have happened but for the hard work and support of everyone in this room. We fought hard to win the much-needed reforms of ACRS. We fought hard to cut federal spending by $35 billion and scale back the wasteful efforts of past Congresses. And we fought hard to get the 5-10-10 personal tax cut. There is no need to abandon these achievements in the face of the perception that the economy is marking time.

That perception is reality. First, because the Congress has failed to cut spending and hence lower the deficit as the President suggested in his February budget and; second, because the high rates of interest have frightened off businessmen from making the needed investment in plant and equipment that will

fuel economic recovery.

It's the chicken and the egg problem -- which comes first -- lower deficits or lower interest rates?

Well, this President was willing to set aside that philosophical question. We are making good faith negotiations with Congress to simultaneously achieve both: lower deficits -- through spending cuts and some selective revenue increases -- and lower interest rates to spark the consumer and business confidence necessary to get the economy moving again.

Those are the objectives. And I'm still hopeful that our negotiations will be successful.

# # #

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-204

For Release Upon Delivery
Expected at 9:00 A.M. E.S.T.
April 23, 1982

STATEMENT OF
DAVID G. GLICKMAN
DEPUTY ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to present the views of the Treasury Department on the following bills: S. 473 and S. 474, dealing with the automobile mileage allowance permitted for purposes of computing charitable contribution and medical expense deductions, respectively; S. 710, relating to the time for payment of the manufacturers excise tax on fishing tackle; S. 1923, which would extend the benefit of the special "annual accrual method of accounting" to partnerships formed between certain farming corporations entitled to use that accounting method and other corporations; and S. 1854, which would make permanent the exclusion from gross income for National Research Service Awards.

At the outset, I would like to emphasize that our position on each of these bills is strongly influenced by this Administration's commitment to the proposition that the best means of providing tax relief is through general rate reductions and other measures that apply equally to all similarly situated taxpayers. On the other hand, we recognize that the Congress wants to deal with situations under current law that seem inequitable. Nevertheless, in view of current concerns over projected budget deficits, we are very reluctant to support changes in the current law where there are sound reasons for the existing rules and the changes would reduce Federal revenues, even though there are reasonable arguments in support of the changes.

I will now discuss the Treasury's specific views on each of these bills. Our estimates of the revenue effects of the bills are shown on the schedule attached to this statement.

R-739

S. 473 and S. 474: Increase in Standard Mileage Rate for Purposes of Computing Charitable Contribution Deduction (S. 473) and Medical Expense Deduction (S. 474)

S. 473 would amend section 170 of the Internal Revenue Code to provide that the amount of the charitable contribution deduction allowable for expenses incurred in the operation of an automobile in performing services for a charitable organization shall be determined at the same mileage rate used by Government employees to determine reimbursement for use of their vehicles on official Government business. S. 474 would amend section 213 of the Code to provide that the mileage rate used in reimbursing Federal employees also shall be used for purposes of computing the amount allowable as a deductible transportation expense necessary for medical care.

We acknowledge that a reasonable argument can be made for using the same mileage rate to measure the cost of using an automobile for charitable or medical purposes as is used to measure the cost of using an automobile for business purposes. Nevertheless, we believe that there are sound reasons for the different rates used under present law. Accordingly, the Treasury Department must oppose S. 473 and S. 474.

At present, the Federal Government reimbursement rate, which is the same rate taxpayers are permitted to use for purposes of computing business expense deductions, is 20 cents per mile. Taxpayers who use an automobile in connection with performing services for charitable organizations or to obtain medical care may use a standard mileage rate of nine cents a mile in computing their charitable contributions or medical expense deductions. The difference in the two rates results from the fact that the standard mileage rate permitted for purposes of the charitable contribution and medical expense deductions reflects an allowance for gas and oil, that is, the expenses directly incurred in performing the charitable service or obtaining medical care. On the other hand, the standard mileage rate for business use of an automobile reflects an additional allowance for depreciation, insurance, general repairs and maintenance, and registration fees. We believe this difference is justifiable.

Allowance of the lower mileage rate for purposes of the charitable contribution and medical expense deduction reflects the longstanding administrative position that the only deductible expenses are those directly attributable to the use of a vehicle in rendering charitable services or in obtaining medical care. No deduction is allowed for a proportionate share of general maintenance, general repairs, depreciation or fixed costs, such as insurance or registration fees. There are three reasons for this position.

First, section 170 of the Code requires that a contribution be paid to or for the use of a qualifying charity to be deductible. Similarly, section 213 of the Code defines medical transportation as amounts paid for transportation primarily for and essential to medical care. Fixed or general expenditures which would have been incurred regardless of the use of a vehicle for charitable or medical purposes cannot be said to be amounts paid to or for the use of a charitable organization or amounts paid to obtain medical care. Second, it is difficult to identify and quantify the amount of indirect costs that are properly attributable to charitable endeavors or to obtaining medical care. Third, it is difficult to ensure compliance in this area under current rules, and to allow a deduction for these indirect costs would exacerbate this problem.

I would also note that the rationale underlying these limitations applies not only to the use of a personal automobile, but also to other property, (such as real estate) used for both personal and charitable purposes. Thus, in all cases, fixed costs, such as depreciation, insurance, and general maintenance and repairs, may not be deducted. If such costs are allowed for the use of automobiles, it could also be argued that they should be allowed for the use of other property. Such an expansion of the existing rules would compound problems of measurement and compliance.

We believe that the current rules provide an acceptable measure of the charitable and medical deductions for the use of a taxpayer's automobile. In most cases, the current mileage rate is adequate to cover the incremental costs directly attributable to rendering a charitable service or obtaining medical care. Moreover, taxpayers are not limited to the standard mileage rate, but may deduct their actual expenses for gas and oil if that alternative is more favorable. Thus, the current mileage rate should not work a hardship on any taxpayer whose actual out-of-pocket costs exceed the mileage allowance.

Finally, the proposed legislation, if enacted, would be costly. As the attached schedule indicates, the combined revenue loss from these two bills would be $77 million in fiscal 1983 and $140 million in fiscal 1984 and would reach $210 million by fiscal 1987.

S. 710: Postponing Time for Payment of Manufacturers Excise Tax on Fishing Tackle and Equipment

Section 4161(a) of the Code imposes a manufacturers excise tax on fishing tackle and equipment at a rate of 10 percent of the sales price of the various articles subject to the tax. Under current law, a manufacturer must deposit the excise taxes due on a semi-monthly basis nine days after the close of the period involved if total tax liability exceeds $2,000 for any month in the preceeding calendar quarter. S. 710 would amend section 6302 of the Code to postpone the time for payment of this excise tax. Under the bill, the tax would be due and payable as follows:

1. in the case of articles sold during the calendar quarter ending December 31, on March 31;

2. in the case of articles sold during the quarter ending June 30, on September 24; and

3. in the case ofarticles sold during the quarter ending June 30, on September 24; and

4. in the case of articles sold during the quarter ending September 30, at such time as the Secretary may prescribe by regulations.

Treasury is opposed to S. 710. The argument advanced for extending the time of payment of the excise tax is that the seasonal retail sale pattern for sport fishing equipment leads manufacturers to grant lengthy credit terms to distributors, so that the latter will increase stock during the off-season and enable the manufacturers to produce at a more even pace. Under present regulations, the manufacturers thus must pay the excise tax before they receive payment from their distributors. However, the extended credit terms of the manufacturers also require the manufacturers to finance all other expenses (rent, wages, raw materials, etc.) for some time before receiving payment from their distributors. S. 710 could have the effect of delaying the payment of the excise tax more than that of other expenses of the manufacturers.

Moreover, different trades have different customary credit terms, which are designed to facilitate operations and maximize profits. Treasury sees no reason why the time of payment of excise taxes should be varied for different industries depending on the usual credit terms in the industry. If a special rule is fashioned for fishing equipment, other special rules will have to be given to every other industry which has unique business practices. Passage of this bill will lead to pressure from others seeking specialized relief.

S. 1923: Extension of Annual Accrual Method of Accounting to Certain Corporate Joint Ventures

Section 447 of the Code, which was enacted with the Tax Reform Act of 1976, generally requires corporations engaged in the trade or business of farming to use the accrual method of accounting and to capitalize preproductive period expenses. Section 447(g) provides a limited exception for corporations which had used an "annual accrual method of accounting" for at least 10 years prior to 1976 and which raise crops which are harvested more than 12 months after planting. Such corporations are permitted to continue to use the "annual accrual method." Under this method, revenues, costs and expenses are computed on an accrual basis but preproductive period expenses may be either inventoried or expensed.

S. 1923 would amend section 447(g) to permit the use of the special annual accrual method of accounting by partnerships formed between corporate taxpayers that currently use the special accounting method and corporations that cannot now use the special accounting method.

Treasury is opposed to S. 1923. It is not merely a technical change in the existing statute. The legislative history of that provision makes it clear that this special rule was intended to permit taxpayers who had a substantial history of using the annual accrual method to continue its use while prohibiting its use by new taxpayers. In effect, the proposed change would permit new corporate taxpayers to use the method without regard to past practice. We believe that the special exception of section 447(g) should not be expanded.

S. 1854: Exclusion From Gross Income for National Research Service Awards

S. 1854 would make permanent the temporary exclusion from gross income that expired in 1981 for National Research Service Awards ("NRSAs") received by individuals pursuant to the National Research Service Award Act of 1974 (42 U.S.C. § 289 l-1). Treasury supports continuation of the temporary exclusion pending review of the tax treatment of similar governmental grant programs and formulation of comprehensive legislative or administrative guidelines regarding such programs. At this time, however, Treasury opposes the permanent exclusion that would be allowed by S. 1854.

Current law provides that, in general, amounts received as scholarships or fellowships are fully or partially excludable from gross income. The exclusion is restricted to educational grants made by relatively disinterested grantors who do not require any significant *quid pro quo* from the recipient. Payments to enable an individual to pursue studies or research are not considered to be scholarships or fellowship grants if the payments represent compensation for past, present or future employment services or for services subject to the supervision of the grantor, or if the studies or research are primarily for the benefit of the grantor.

NRSAs are awarded to individuals for biomedical and behavioral research, or for pre- or post-doctoral training at public, private or governmental institutions. In return for an NRSA, most recipients must, within 2 years after completion of the period for which the award was made, engage in health research or teaching for a specified period of time. If a recipient fails to complete the post-award service requirements, he must repay all or a part of his NRSA. In addition, some recipients must allow the government royalty-free use of any copyrighted materials produced from research performed under an NRSA. However, there is no requirement that a recipient publish the results of his research.

In 1977, the Internal Revenue Service ruled (Rev. Rul. 77-319, 1977-2 C.B. 48) that NRSAs are not excludable scholarship or fellowship grants because the post-award requirements and the copyright policy constitute a substantial *quid pro quo* in exchange for NRSA grants. In 1978, temporary legislation was passed to exclude NRSAs from income pending study of the entire area of scholarships and

fellowships by the Joint Committee on Taxation. That temporary exclusion expired at the end of 1981. S. 1854 would make the exclusion for NRSAs permanent.

A reasonable argument can be made in support of treating NRSAs as excludable scholarships or fellowship grants. Since no Federal Government service or publication of research results is required under the program, the payback clauses, post-award service requirements and copyright policy imposed on recipients would not seem to be primarily for the benefit of the grantor -- the Federal Government -- in any direct sense. The primary beneficiary of the NRSA program is the general public, by virtue of the public benefits flowing from the research conducted and the teaching skills created through the NRSA program.

Although there are policy arguments in favor of excluding NRSAs from gross income, Treasury is opposed to making the NRSA exclusion permanent at this time. We recognize that Congress three times has passed temporary legislation excluding NRSA grants from gross income. However, there are a number of other government educational grant programs conditioned upon the recipients performing some public service that may directly or indirectly benefit the grantor. For example, there are state programs providing for cancellation of student loans if the student performs specified socially beneficial services, which are excluded from income under temporary legislation expiring on January 1, 1983. (P.L. 95-600, § 162). New state or Federal grant programs conditioned on public service requirements may also be enacted in the future. Treasury believes that developing comprehensive guidelines for the tax treatment of these educational grant programs is preferable to legislating on a case-by-case basis with respect to each particular program. Accordingly, we have initiated a project to consider whether these standards can be developed within the framework of existing law by ruling or regulation, or whether legislation is necessary. If it is determined that new legislation is needed, we will be pleased to work with this Subcommittee in developing the appropriate general rules.

Pending completion of our review of this area, Treasury supports continuation of the temporary exclusion from gross income for NRSAs. We would suggest that the exclusion be continued through December 31, 1983.

I would be happy to answer your questions.

Revenue Effect of Five Senate Bills

($ millions)

	Fiscal Years					
	1982	1983	1984	1985	1986	1987
S. 473 Charitable contribution deduction for automobile mileage	7	55	102	115	135	159
S. 474 Medical expense deduction for automobile mileage	*	22	38	41	46	51
S. 710 Time for payment of excise tax on fishing tackle	--	1/	1/	1/	1/	1/
S. 1854 Exclusion for National Research Service Awards	*	8	8	8	8	8
S. 1923 Annual accrual accounting for corporate farming joint ventures	--	*	*	*	*	*

Office of the Secretary of the Treasury
Office of Tax Analysis

April 22, 1982

*Less than $5 million.

1/ This proposal has no revenue effect. Outlays are increased by less than $5 million in this year.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

002695

APR 27 '82

TREASURY DEPARTMENT

FOR RELEASE UPON DELIVERY
12:00 Noon Hong Kong, Monday April 26, 1982
10:00 P.M. U.S.A. Sunday April 25, 1982

REMARKS BY THE HONORABLE R. T. MCNAMAR
DEPUTY SECRETARY OF THE U.S. TREASURY
BEFORE THE
AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Trade and Finance in the Pacific Basin

The United States has a strong, direct interest in the countries of the Pacific Basin. We work jointly with the Pacific nations to enhance our mutual security, assist in their economic development, and encourage mutually beneficial trade and investment flows. Today I'd like to mention some of the key figures in the economic area:

U.S. trade with the Basin countries -- including a number of key developing countries as well as Australia, New Zealand, and Japan -- totaled about $127 billion in 1981, more than our trade with all of Western Europe.

American bank assets in the Basin exceed $45 billion.
U.S. Export-Import Bank exposure in trade with the region stands at about $10 billion -- or nearly 30 percent of its total portfolio.

The U.S. direct investment position in the area reached $22 billion in 1980, with the bulk of this in petroleum development and refining.

R-740

Members of the Reagan Administration, perhaps more than any other in recent memory, have a special interest in developments in the Pacific. Since so many of us are from California, we look towards the world across the Pacific Ocean -- not just the Atlantic. Where I lived the Asian influence is evident in our food, our gardens and even our architecture. I saw the Pacific each day on my way to work. Accordingly, I know that the larger ocean -- and the fastest growing economies of the world -- are in the Pacific Basin, not the North Atlantic.

The Pacific Basin is, in many respects, the growth area of the future. It is already the burgeoning area of today.

Take Japan, for example. During the 1960's Japan's real growth rate was a phenomenal 10 percent per year. Following Japan's lead came Hong Kong, Korea and Taiwan during the 1970's, also with average annual growth rates of more than 10 percent. They were well above U.S. and European growth rates and even outpaced the growth of Japan in this period. The Pacific Basin is truly the world's most dynamic growth area. We expect it to continue to be so for the foreseeable future, even if the spectacular growth rates are not sustained.

As with Japan, the economic growth of these newly developed nations has benefited substantially from their ability to export -- and in particular, their ability to export to the United States.

-- Exports account for 30 percent of Korea's GNP, and nearly 50 percent of Taiwan's; Hong Kong, as an entrepot for trade with China, is even more dependent on international trade.

-- The combined exports of Hong Kong, Korea, and Taiwan more than tripled between 1975 and 1980. Their exports to the United States likewise tripled.

-- The United States now takes one-fourth of total exports from the Pacific Basin's developing countries -- a larger share than any other single industrial nation, including close by Japan.

Thus, access to markets, and continued access to the U.S. market in particular, is essential to the future economic growth of the Pacific Basin countries. The Reagan Administration is committed to maintaining open markets at home. Indeed, improving access to other markets is a cornerstone of U.S. international economic policy.

Frankly, I recognize that our record is not absolutely pure. We do interpose some restraints, most recently in the area of automobile imports, which raise sensitive issues both here and in the United States.

Continuing U.S. restrictions on imports of textiles and dairy products also are of special concern to some Basin countries. Hong Kong, in particular, depends on its textile industry for

more than 40 percent of domestic employment and for a similar proportion of its exports. Yet despite our trade restraints, the United States continues to be Hong Kong's biggest market for textiles.

The U.S. record is stronger with regard to shoe imports. The Reagan Administration has completely terminated previous import restraints on shoes from Korea and Taiwan.

Overall, despite some exceptions, the U.S. remains the largest, most open market for the countries of the Pacific Basin.

However, long term trade must be a two-way street. We will find it increasingly difficult to maintain an open market at home, if other countries exclude U.S. goods from their markets.

Just as the Pacific Basin countries depend heavily on exports to the United States, so too the United States depends on access to Pacific Basin markets for its goods, services, and investment. We must mutually continue to assure that our doors are open to each other.

U.S.-JAPANESE TRADE

The world multilateral trading system is an integrated, organic system. And the future economic growth of the Pacific Basin will be affected by developments both within and outside the region.

The most important factors in that future will not be the availability of foreign aid or the level of interest rates on foreign bank loans. Bluntly put, the extent of the future growth of the Pacific Basin may to a great extent turn on the U.S.-Japan trading relationship.

U.S.-Japan trade relations are today at a critical crossroads:

-- If Japan moves to liberalize access for foreign goods which compete with Japanese products, the global community, including Japan and other nations of the region, will benefit substantially.

-- If Japan does not move forcefully and convincingly, there are mounting pressures in the United States and other countries for responses which increase the risk not only of a trade war, but even the unravelling of the international trading system itself. The dangers are real and the time for meaningful actions is clearly short.

Too many observers view U.S.-Japan trade frictions as an inevitable by-product of a large U.S. trade deficit with Japan.

Let me emphasize that the U.S. Government's objective is not to seek balance in U.S.-Japanese trade or in any other single bilateral trade account. Trade balances will properly vary

with competitive conditions over time.

Rather, our concern is with a more fundamental problem: our lack of ability to sell U.S. products in which we have a clear competitive advantage in the Japanese market. In this context, the large U.S. trade deficit serves to highlight the difficulties U.S. exports face in Japan. It is seen as an indication of an inequitable economic relationship, and thereby adds to the pressure to restrict Japan's access to the U.S. market.

Lack of access to Japanese markets spawns calls for "reciprocity", and contributes to strong and growing pressures in the United States and elsewhere for retaliation against Japan.

For example, the European Community is pursuing a complaint against Japan under the international trading rules. Taiwan has imposed a ban on imports of 1,500 products from Japan. Frustrated by the lack of openness in the Japanese economy, many U.S. business interests want to impose similar restrictions on Japan's access to our market.

Certainly Japanese products have penetrated many of our markets: 22 percent of the U.S. auto market, 90 percent for motorcycles, 100 percent for video tape recorders, 70 to 80 percent for 64K RAM semiconductors, and so on. In Japan, on the other hand, there is virtually no manufactured good in which imports from all sources, let alone from one country, come close to such high market shares. This is most frustrating where U.S. goods are clearly competitive in both price and quality, yet our market shares are kept artificially low.

As appealing as retaliation appears, the Reagan Administration resists such calls. We remain firmly committed to the principles of free trade.

However, we will not act as purists to be taken advantage of; we will act pragmatically. We know retaliation would in the long run not be beneficial to the U.S. economy -- and we fear that retaliation against one country would simply signal the start of successive rounds of protectionist measures by many countries.

Instead, we are determined to improve access to Japan's market. We firmly believe that liberalization on the part of Japan is the only solution to current trade frictions. The nations of the Pacific Basin have a common interest in seeking greater access to Japan's market and, at the same time, preserving global free trade.

In this regard, I do acknowledge that Japan has already undertaken some liberalization. Japan's most recent effort to liberalize 67 non-tariff barriers represents a good start, but much more needs to be done. At a minimum, the Government of Japan, in its policies and guidance to the private sector, should discourage any anti-import bias by Japanese businessmen against competitive

foreign goods. Such a change would mean a departure from the Japanese Government's traditional outlook on imports, but the longer a move in this direction is delayed, the more vocal the protectionist voices will become outside of Japan.

In the immediate post-war period, Japan was a poor, developing, isolated island country with many talented people and few natural resources. It was a country that desperately needed to export in order to pay for its critical imports of food and raw materials.

During this period of economic uncertainty for Japan, the United States, as the largest and strongest economy in the free world, led the way in rebuilding and liberalizing the world trading system. Through the Marshall Plan and persistent advocacy of open markets at home and abroad, the United States helped create a world economic and trading environment in which Japan could recover and develop.

In the last three decades Japan's economic position has changed. Today Japan is one of the world's largest economies. Its manufactured products are known the world over for quality and value; its highly developed economy has remained strong, even in the face of successive oil price hikes in the 1970's.

But along with economic strength, responsibilities beyond domestic concerns develop. No country has benefited from an open world trading system more than Japan. These unquestioned benefits can only continue in a free trade environment that ultimately protects Japan from the growing protectionist sentiment.

Japan's assumption of the full responsibilities commensurate with its economic prominence and the gains it reaps from access to markets abroad will bring the long-term economic security she seeks. The United States took the role of leadership in promoting the post-war liberal trade system, with the latest round of negotiations kicked off in Tokyo itself. Now Japan must assume a leadership role as a full partner with the other industrialized countries.

A policy of grudging liberalization, undertaken only after intense pressure and threats from trading partners, is not a credible or sustainable policy approach for any country to pursue.

Japan has an extraordinary opportunity to advance the free trade system by opening her own markets, and an extraordinary interest in taking full advantage of that opportunity. Failure to do so will inevitably result in long term Japanese economic isolation, and threaten the very existence of the open trading system itself. We and other countries of the Pacific Basin share a common interest in assuring that Japan feels confident to join this effort fully.

FINANCIAL SERVICES AND MARKET ACCESS

Increased access to Japan for manufactured goods is not our sole concern. Throughout the Seventies, U.S. service industries have grown dramatically, making important contributions to GNP, employment and the balance of payments.

Of the 19 million jobs created in the U.S. between 1970 and 1980, 85 percent were in the service sector. U.S. service industries are competitive and innovative. However, they, and we, have become increasingly concerned about restrictions on their access to foreign markets, and limitations on the types of services they can offer.

For example, U.S. insurance firms often complain of being stymied in their efforts to offer innovative products in markets such as Japan and Korea. In these markets they face long licensing delays, intense regulation, and other restrictions which make it difficult to broaden the scope of the services they may provide. Although in some instances domestic firms may face the same limitations in their own countries, more often than not such restrictions serve to shield less competitive domestic firms from innovative foreign competition.

One area, of particular concern to Treasury, is financial markets. I would like to comment specifically on our efforts in the banking, securities, and capital markets areas.

As you know, the United States is strongly committed to the principle of free and open financial markets, both domestically and internationally. Our international objectives are basically two-fold: (1) national treatment, and (2) the right of establishment.

National treatment is the cornerstone of our government's policy both for foreign banks within U.S. markets and U.S. banks operating overseas. Foreign banks are permitted to participate in our financial markets on almost exactly the same terms as domestic institutions. Indeed we permit 6 of our 10 largest California banks to be foreign owned.

As you in Hong Kong have benefited from your experience as a major financial center, so we have benefited from the presence of foreign banks. They have increased competition, introduced new services, and brought access to new sources of foreign capital.

Likewise we expect American financial institutions will be allowed to compete in foreign markets on equal terms with local banks. This is, of course, beneficial to both countries. And most major countries already extend "national treatment" to foreign banks. Moreover, there is a discernible trend towards liberalization of regulations governing the activities of foreign banks.

It is particularly important that we continue to make progress in creating this "level playing field" internationally. It is the most effective defense against the pressures for protection and retaliation that are becoming a widespread and troubling characteristic of the international environment.

We in the United States have a strong commitment to open financial markets, but we cannot maintain -- by ourselves -- the open international financial system that has served the world so well. We need the help and support of all other countries.

The United States also strongly believes that U.S. banks should be accorded a reasonable right to establishment in foreign markets, particularly if we in the United States offer similar access to foreign banks. Without the right to establish branches in the first place, the question of "national treatment" is moot.

This leads me to a final point -- the question of restrictions on international capital movements. The United States imposes no restrictions on the flow of funds into or out of the country. Neither does Hong Kong. But we two are more the exception than the rule.

Few countries do not impose restrictions of one form or another on movements of capital across their national borders. This is regrettable. Such restrictions, even if temporary and designed to deal with special circumstances, inevitably distort the international allocation of capital and reduce the efficiency of the financial system.

But it is a much more serious matter when countries routinely and regularly deny foreigners access to their capital markets.

No country that protects its domestic financial markets can be a full partner in the world's open trading system. Obviously, domestic financial restrictions can and do have international repercussions today.

These policies undermine the principles of free trade, and inevitably exert irrepressible political pressures to take short-sighted protectionist measures in countries that have forced their domestic industries to compete on a worldwide basis, and faced with attendant temporary unemployment, dislocation of workers, and political pressures to protect even weak and ineffective industries. It is in the interest of all nations that we demonstrate the resolve, and find the means, to resolve these difficult issues in a way that strengthens the open international financial system.

To be fair, the Japanese financial system has progressed during the past decade. The Japanese government has encouraged a more market-oriented domestic financial environment and has permitted increased foreign participation in the Japanese financial market. In line with greater financial liberalization, the

Japanese authorities have acted to equalize the treatment of foreign and domestic financial institutions in Japan. For example, U.S. commercial banks are now able to establish representative and branch offices, solicit individual deposits, issue certificates of deposit, and participate in the money market.

Moreover, Japan's new bank law includes the principle of national treatment for foreign and domestic financial institutions. As you probably know, this law will permit foreign banks to incorporate under the Japanese commercial code, and to form subsidiaries which could merge with other Japanese financial institutions, subject to Japanese fair trade laws.

In the securities area, progress also has been made. This month, the charter of the Tokyo Stock Exchange (TSE) was revised for the first time to permit foreign membership. In addition, by the third quarter of 1982 foreign securities dealers will be allowed to retain the same percentage of commissions on their TSE transactions as Japanese non-members. A U.S. firm has now co-managed a domestic public yen issue; and U.S. firms have also participated in private placements.

The United States welcomes these developments and hopes Japan will continue to progress rapidly along the path of freer financial markets.

Despite this progress, Japan nevertheless maintains certain capital controls which, largely through informal "administrative guidance", impede access to Japanese financial markets either potentially or actually. These controls relate primarily to limitations on banks' external yen and dollar lending, and to quantitative ceilings on foreign security placements in the Japanese market.

They are maintained largely in view of balance of payments and exchange market considerations. The United States encourages Japan to continue to open its markets, so that foreign borrowers may raise yen financing on an unrestricted basis, both through the commercial banking system and through the bond markets in Japan.

Some problems still exist regarding the equal treatment of foreign and domestic financial institutions by Japan.

One of the more significant problems is the real difficulty experienced by U.S. financial institutions in trying to establish themselves in the Japanese market. This may be due in part to the fact that Japanese financial firms are extremely competitive, and also to the general decline in Japanese demand for funds resulting from slower economic growth.

But we suspect it is also due to the strong and often close financial relationships which Japanese financial institutions have with the Japanese industrial structure. The Administration

wants U.S., Asian, and European financial institutions to have the opportunity for full competition in the Japanese markets.

CONCLUSION

In summary, pressures on the U.S. for protectionist actions have never been stronger. Significant, early progress is essential to future U.S.-Japanese economic relations, to our common interest in access to the Japanese market, and to the continued stability of the international trading system.

The time has come for Japan to graduate to its rightful position of full partnership in the international economic community, and to accept its proper responsibilities as an economic power of the first tier. And -- while Japan should be the first and at present the most important country to assume such responsibilities -- we hope that the newly industrialized countries of the Pacific Basin, and of the Americas as well, will soon follow suit.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AFTER 1:00 P.M.
Monday, April 26, 1982

Remarks by Donald T. Regan
Secretary of the Treasury
Before the
American Newspaper Publishers Association
San Francisco, California
April 26, 1982

I want to thank Kay Graham for asking me to join you here today. In her letter of invitation Kay said she hesitated asking me to fly across the country to talk to 2,000 newspaper publishers.

My immediate response was -- don't be so hesitant. Jim Brady once ad libbed a golden nugget of wisdom: "never argue with anyone who buys ink by the barrel." I'd like to add my own corollary to that: Never hesitate to talk to 2000 people who buy paper by the boxcar.

Fortunately, I'm not the conspiratorial sort so I won't accuse the Washington Post of arranging for me to speak after Ted Kennedy and Tip O'Neill. However, I do wonder why the television in my room offers two first run movies and the selected lectures of Dave Broder and Ben Bradlee.

Obviously, you want to hear my views on the economy and where I see it going. And I am going to respond to that expectation. But first, I want to discuss a subject absolutely vital to our economic health, now and in the future. That subject is not economic policy but the political leadership that shapes and is responsible for that policy.

Specifically, I want to look at the nature of the modern Presidency. Instead of dipping into the Federalist Papers or some academic analysis of the role of a chief executive, let me draw a technological analogy.

A President can either be a gryocompass or a computer readout.

The gyrocompass, as all you seafarers know, is a marvelous device, that replaced the error-prone magnetic compass as a ship's navigational instrument. It's core is a gyroscope which maintains its spin and its equilibrium no matter how rough the seas, no matter how much a vessel may roll, pitch or yaw. It does this with complete disregard for the occasional sailor, or even marine, who bends over the rail slowly, changing from one shade of green to another.

R-741

The gyrocompass, in short, is the scientific equivalent of keeping your head when all about you are losing theirs, for it maintains its balance regardless of destabilizing forces.

What about the other element of that analogy: the computer readout? Again, a magnificent achievement without which, for example, the IRS would probably have to draft every third adult to compute our taxes. The computer readout tells us instantly and in seemingly infinite detail the stage of a chosen segment of the world.

Although this technology was undreamed of by our founding fathers, the idea of the Presidency was that it would serve as the governmental equivalent of a gyrocompass -- a center of stability by means of which a steady course might be set and maintained. And it would be maintained despite the ebb and flow of events or the changing winds of opinion.

The Presidents we recall most strongly and for whom we tend to hold the highest regard were gyrocompass Presidents. They did not waver though often assailed by language and by personal attacks that even our permissive age would find distasteful.

George Washington was accused of trying to reinstitute the monarchy and assailed for seldom knowing the real state of the nation and thinking it beneath his dignity to mix occasionally with the people.

Thomas Jefferson endured a barrage of humiliation during his entire term, but never relaxed his defense of freedom of expression.

Andrew Jackson, both Roosevelts, and Harry Truman, all were hit hard and often, and they did not stray from the course they had set. The most characteristic anecdote about Lincoln clearly reveals his gyrocompass qualities. faced with a Cabinet united against one of his policies he tallied all the opposing "Nays," and concluded, "The 'Ays' have it."

We tend to forget the occasional and not-so-occasional unpopularity of these now revered figures, and tend also to lose sight of the gyrocompass function of the Presidency in favor of one that resembles the computer readout.

We sometimes seem to take polls at daily intervals, recording the pulse of 1751 or 52 selected, representative Americans, and appear to ask the President to react somehow to this evidence of their disaffection or unhappiness or desire to let off steam. we seek to shake a President's confidence or

attenuate his staying power or overwhelm his long-range policies with an incessant rain of short-term statistics.

Let me be plain -- I am not speaking about or criticizing the press. What I am talking about is the capacity possessed by our information-rich society continually to place a thousand tiny pressures on the stability of its leadership.

It would almost seem that what many would most prefer in a President is an enormous computer, plugged into the brainscans of that representative sample, connected to other computers in the Bureau of Labor Statistics, with lines also running out to every Congressman and Senator, including a co-axial cable to tip O'Neill -- a computer sensitive to the times when Dan Rather changes his sweater and to the confrontation quotient of Helen Thomas's questions, a computer programmed with an econometric model devised by a committee composed of the Brookings Institution, the Reverend Jerry Falwell and the Three Wise Men.

That computer readout would possess two qualities. First, it would have strong philosophical underpinnings -- driven by a devotion to pragmatism with its rejection of consistent values in favor of what seems to work best at any given moment. And, second, it would not bore anyone from an excess of consistency but would rather change day by day, if not more frequently, providing all with the policy equivalent of the most current lowest common denominator.

Perhaps the Japanese will soon be selling us such a computer, complete with the necessary software, and we can then save the time and energy that we now devote to finding and electing a leader.

But until that day arrives, I think we should know and acknowledge, if not applaud, the fact that we have a gyrocompass President -- who is doing now what he said he would do if he was elected.

I think we should also know and acknowledge, if not applaud, the fact that we have a President who does not waver from moment to moment but who maintains a steady course.

And, ladies and gentlemen, a steady course is what simply must be maintained because the issues that face this nation now and for the foreseeable future cannot be solved by zig-zagging them to death. We must have consistent, long-range policies because the problems that beset us were not born yesterday or due to expire tomorrow. We are entering a new era in our economic life, and we simply must understand that and build a strategy to meet the challenges of that new era.

The short-term expedients of the past wouldn't do it. We've already seen that. Because recent Administrations were too unsure of themselves to insist on doing what was right in the face of opposition or the slightest indication that somewhere they were inflicting pain, they failed to provide consistent navigational guidance and instead operated like a computer readout. Thus, during 1980, no less than three different national economic policies were tried on and then taken off. Government was fine-tuning, switching from channel to channel, hoping against hope for an economic policy with the general audience appeal of "Little House on the Prairie."

The scene was reminiscent of that story about the French Revolution when revolutionary guards halted a man chasing a mob. "Let me go!" he shouted.

"I have to catch up with them. I'm their leader."

This President and this Administration is not going to do that.

We have set the gyrocompass to a course clear and certain and we are going to leave it set. Let me restate the nature of that course.

It has been called Reaganomics, which connotes something brand new and far from the mainstream of American economic experience.

Nothing could be further from the truth.

Reaganomics -- supply side economics -- neo-classical economics, call it what you will, is as old as the nation itself. In fact, it is similar to the incentives for investment policies devised by our first Secretary of the Treasury, Alexander Hamilton.

Back in 1798 the debate centered over policy toward foreign investment in our then undeveloped country. As early as 1791 Hamilton had been urging Americans not to undermine their own interests by viewing foreign investment as an intrusion or as a rival to domestic investment. Rather, he urged that foreign investment be welcomed by offering incentives to those willing to risk the uncertainties of the American political and economic environment.

The key to Hamilton's economic policy and the key to the President's economic policy are alike: incentive to invest.

Investment produces jobs, incomes, goods and services -- the only real and lasting way to reduce unemployment and poverty.

But there were, and to some degree there still remain, huge obstacles to a policy of stimulating and encouraging investment.

One such obstacle is inflation. The President's gyrocompass is set on a path that will reduce inflation as a significant factor in our economy. And already, in what is possibly the most underplayed story in recent economic history, the inflation rate moved from the double-digit range of 1980 to 8.9 percent in 1981. For the last six months it has been running at 3.5 percent; the last three months at about 1 percent; and in March the CPI fell .3 percent -- the first decline in 17 years.

High inflation discouraged saving: High taxes often made savings impossible. So the Economic Recovery Tax Act of 1981 provided a whole range of incentives for individual saving and for business investment, the full force of which will have an enormous impact on saving.

Government spending, and huge deficits despite high tax rates, similarly syphoned off the capital and labor that would otherwise have been used to rebuild our industrial base and restore our competitive edge. The Presidential gyrocompass also is set on a course of reduced government spending, and already some $35 billion in such spending has been eliminated with more to come.

These are not isolated policies. All fit together like the gears of a machine. None can be eliminated without that machine breaking down and failing to reach the goal of economic recovery.

Reduced levels of taxation, government spending, and inflation stimulate savings which, urged on by investment incentives to business, flows into new and more productive facilities which provide jobs and more income.

All right you say, if it's that simple, why isn't the economy "roaring back" this Spring as you predicted? And if these economic policies work like a machine -- isn't a critical gear broken, the deficit gear?

Those are good questions, and I'm glad I asked them.

Let's begin with the prediction that supposedly qualifies me as the Administration's resident bull -- we're going to see signs of a strong recovery in the late Spring.

My prediction was based on past economic history, not political wishful thinking. History gives us every reason to expect a roaring recovery. In the final three months of the 1969-70 recession, real GNP fell at a 3.1 percent annual rate and then soared at a 10.3 percent rate in the first recovery quarter. In the last quarter of the 1973-75 slump the GNP measure fell 8.2 percent annually and then rose at 5.0 percent and 9.3 percent rates in the next quarters.

Of course, historically we should have had great cherry blossoms in Washington this year. Unfortunately, no one predicted snow in April. The equivalent of that snow is high interest rates.

What is keeping rates high? The fear of a huge deficit. You note I did not say the deficit itself is supporting high interest rates. I'll look at this "crowding out" argument in a moment.

But let me first observe that there is a psychological element in the money markets as to deficits just as there is to the stock market. There have been many instances where the market goes down when the news is good and up when the news is bad, and most stocks, regardless of worth move together. There are times when certain types of stocks are in fashion, and move ahead regardless of value. There have even been instances where just the name of a stock makes it attractive, like adding technology to the corporate title.

Similarly, bankers fear that deficits will lead to renewed inflation, and so insist on an "inflation factor" in interest rates, even though inflation is obviously down and heading further down.

There is only one way to dispel those fears: to demonstrate a determination to cut the deficit by reduced government spending. The failure of Congress to respond to the President's call for further spending cuts is feeding uncertainty in the financial community, and this is keeping interest rates up, prolonging the recession and, perversely, through the resultant decrease in tax revenues, further raising the deficit.

Led by lower rates of taxes and inflation, and lower levels of inventory that must be replenished, the economy is ready to move. People are just waiting for a break on the deficits question. And when that break comes, past experience tells us that matters can change dramatically, especially interest rates. For example, interest rates on 13-week Treasury bills dropped an astounding 29 percent in the 9-week period between October 2 and

November 27 of last year. Once Congress cuts Federal spending and lowers those deficits, I think you will see the same thing.

Obviously I'm talking about reducing the deficit, not eliminating it entirely as yet. Won't the presence of a deficit the size that this Administration is reluctantly willing to accept result in a continuation of high interest rates thereby prolonging the recession and disrupting the machinery of the President's economic plan? A few months ago I stated that the savings pool will allow us to cover the deficits and prevent crowding out. I continue to believe that the economic recovery program will have a certain and highly significant impact on the nation's savings pool.

Private savings will be higher in 1982. Higher in 1983 and still higher in 1984. Private savings was just under $480 billion in 1981. They should be more than $740 billion in 1984. This savings increase, with the deficit projections in our proposed budget, would allow adequate funds for both private and public borrowing.

Again, despite the fact that the expected flow of additional savings will prevent crowding out, the mere perception of large deficits is helping to keep interest rates at levels far above the so-called inflation premium. Right now interest rates contain an inflation premium of 9 or 10 percent, Yet, as we have seen, inflation for the first few months has been running at less than 5 percent, and there is every indication that it will remain at these low levels. So why aren't those inflation premiums in the interest rates going down? Because the markets, burned so often in the past, and witnessing so many in Congress trying to return us to the disastrous policies responsible for our economic distress, won't believe that inflation will stay down until they see a cut in the deficits.

We can point out endlessly that other countries, Japan and Germany for instance, have fared very well with deficits that constituted a higher proportion of GNP. That arguing has no impact because we are dealing with perceptions and psychology. Whether it's right or wrong is beside the point. Like Mount Everest, the psychology is there. And that's why we must deal with the deficits as well as increase the savings pool.

However, this doesn't mean that everyone is frightened or twittering with uncertainty.

The April Morgan Guarantee Survey says "the Morgan Bank's view is that the economy will turn upward moderately in the current quarter."

The New York Times reported about a week ago on an Oppenheimer and Company survey of 138 money managers. The Times said, "The main concern expressed by the executives was fear of renewed inflation -- not fear that the recession would be too severe. The greatest fear was that Congress and the Administration would overreact to the recession and increase spending..."

So let me sum up my considered conviction about why I believe the economy is on the verge of turning around. There are three primary sets of factors that will force an energetic rebound that will be sustained over several years. Two are certain: one requires action.

Certain event number one is the 10 percent tax cut that goes into effect in July, a tax cut of $32 billion that will spur savings and investment in the economy.

Certain event number two is the normal upward movement of the business cycle resulting from the need to replenish depleted inventories, household stocks of consumer durables, postponed additions to the housing stock and the like. When this pent up demand is coupled with the substantial incentives to invest that are also part of the tax reform package, we are going to see -- and see soon -- substantial increases in output almost irrespective of whether improvements in financial market conditions also shortly materialize.

The event that still requires action is a decline in interest rates -- and I believe this will follow like day after night when market uncertainty about deficits is cleared up, assuming of course that the Fed will hold to a steady monetary policy -- as we have urged.

Am I disappointed that the upturn hasn't already begun? Of course, Am I discouraged? No. Because all the pieces but one are in place -- and action on that one piece cannot long be delayed.

And while I cannot yet describe in any detail the action that will be acceptable to the President, I can tell you that the gyrocompass is not going to change its fundamental direction or abandon its stability. Here too, Hamilton summed it up: "A feeble executive implies a feeble execution of the government. A feeble execution is but another phrase for a bad execution: and a government ill executed, whatever it may be in theory, must be, in practice, a bad government."

Ronald Reagan was elected to give us better government.

That's what he intends to do, and the American people should be relieved and delighted to know, that he doesn't have any plans to waver and wobble and feebly cave in to calls for expediency under the guise of compromise.

Thank you.

# # #

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

LIBRARY
APR 29 '82
TREASURY DEPARTMENT

For Release Upon Delivery
Expected at 2:00 p.m.
April 26, 1982

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
OF THE INTERNAL REVENUE SERVICE
COMMITTEE ON FINANCE

Mr. Chairman and Members of this Committee:

I am pleased to be here today to present the views of the Treasury Department on S. 2369, the "Independent Contractor Tax Classification and Compliance Act of 1982." I am accompanied by Percy Woodard, the Assistant Commissioner (Examination) of the Internal Revenue Service.

S. 2369 would establish a statutory safe harbor which guarantees independent contractor status where five requirements are satisfied. At the same time, the common law would be retained for determining the employment tax status of taxpayers who do not meet the safe harbor. In addition, the bill would strengthen information reporting through substantially increased penalties, and would expand reporting by direct sellers.

OVERVIEW

Because the moratorium on the reclassification and issuance of regulations and rulings regarding the status of individuals for employment tax purposes expires on June 30, 1982, I agree with Senator Dole and his cosponsors that renewed consideration of this pressing issue is imperative. The present moratorium has only delayed a solution to the problem. Both taxpayers and tax administrators will benefit from its resolution.

R-742

In dealing with the employee-independent contractor issue, our principal concern is the low compliance that independent contractors as a group have shown with respect to both income and social security taxes. Noncompliance with our tax laws is a serious and growing problem. In this time of unprecedented fiscal austerity, we must take all available measures to prevent taxpayers from underreporting their income or overstating deductions or exemptions claimed on filed returns.

In 1979, the Internal Revenue Service undertook a study of the income tax and social security tax compliance of independent contractors. This 1979 Employer/Independent Contractor Compliance Study has been the subject of much discussion and criticism. Even if the criticism were justified, however, the results of that study indicate such significant noncompliance that its basic conclusion cannot be overlooked.

The 1979 study showed substantial underreporting for income tax purposes and even greater underreporting for social security purposes among those workers studied. For income tax purposes, about 78 percent of the income that should have been shown on returns was reported. In terms of taxes due, the 78 percent of reported income resulted in the collection of about 85 percent of the total tax liability due. Thus, approximately 22 percent of the income that should have been reported -- more than $1 out of each $5 -- was not reported, and 15 percent of income tax liabilities was not paid. Significantly, almost 45 percent of the workers in the study reported absolutely none of the income they earned as to which there was no withholding. As these figures indicate, nonreporting predominantly occurred among workers with smaller amounts of payments.

With respect to social security taxes, noncompliance was even greater. In total dollar terms, 69 percent of income was reported and 69 percent of social security taxes due were paid; thus noncompliance was 31 percent. Most disturbing, however, 58 percent of the workers did not report any of their self-employment income for social security purposes.

We cannot afford this high rate of noncompliance among independent contractors. Compliance measures do not impose new taxes; they merely ensure collection of taxes otherwise due. One obvious question, then, is how to improve the compliance of independent contractors. Although improving compliance is and should be the goal of any legislation in

this area, the controversy over independent contractors has focused on another question: what is the definition of "independent contractor"? Although these two questions are linked, they are not identical -- if we correctly define the term "independent contractor," we still are faced with the question of achieving the best compliance within that group.

DISCUSSION OF S. 2369

Definition of Independent Contractor and Safe Harbor Test

Under the Internal Revenue Code, compensation is subject to withholding of income and employment taxes only if an employer-employee relationship exists under common law. Also, social security (FICA) and Federal unemployment (FUTA) taxes are due only if such employer-employee relationship exists. For income tax purposes, an employee is subject to withholding at graduated rates, while a self-employed individual makes quarterly estimated tax payments and the payor does not withhold. It is this disparity in collection which has put such pressure on the definition of independent contractor.

A worker is considered an employee under the common law when the person for whom services are performed has the right to control and direct the individual, not only as to the result but also as to the details and means by which the result is to be accomplished. Some 20 factors are applied to determine whether the requisite control exists; thus, determinations of employment status are heavily dependent on the specific facts of the individual case.

In many cases applying the common law test in employment tax issues does not yield clear, consistent, or satisfactory answers and reasonable persons may differ as to the correct classification. Common law concepts initially developed in England as a way to determine when a master would be liable for the torts of his servant. Different criteria for determining control have been emphasized by different courts, so that no one factor is deemed to be determinative.

Although the independent contractor dispute has been cast in terms of whether the payor has the right to exercise control of the worker, that historical development need not be determinative of whether withholding at graduated rates is appropriate for a particular worker. If a worker's gross remuneration approximates his net income, withholding at graduated rates would accurately collect the correct amount

of tax. Indeed, from the standpoint of the worker, withholding is the most convenient and least disruptive method of satisfying his tax obligation. On the other hand, if a worker's net income departs substantially from his gross income, the current system of withholding would produce overwithholding and would probably not be an accurate or desirable tax collection method. Moreover, if an individual works for many payors, withholding, to be accurate, presents administrative problems.

If a safe harbor definition of independent contractor will exempt a worker from the withholding system applicable to employees, the elements of that safe harbor should attempt to isolate and cover cases in which withholding on gross remuneration would not be sensible. Items such as substantial investment or unreimbursed expenses are key, while conditions of employment and control over those conditions, even though they often indicate independence, may not be determinative or even germane, except to show the administrative feasibility of withholding.

The relationship between a safe harbor and retention of common law is also crucial. A statutory safe harbor, properly drawn, would provide certainty as to their independent contractor status to workers and those for whom they perform services. But no safe harbor, however well conceived, could purport to cover all independent contractor relationships without sweeping into the safe harbor many people who are clearly employees, as well as many others whose status may be debatable. In our view the common law provides sufficient flexibility to deal with a myriad of work relationships.

A balanced approach to classification, then, should provide an appropriate but narrow safe harbor while retaining the common law to deal with taxpayers who do not meet the specific statutory provisions. In our view, however, the safe harbor of S. 2369 does or could include virtually all cases in dispute at the enactment of the moratorium. This could exacerbate the serious compliance problem that exists under current law.

S. 2369 would add a new section 3508 to the Internal Revenue Code which, if certain specified conditions were met with respect to services performed by an individual, would treat the service as being performed by other than an employee, and treat the person for whom the service is performed (the "service-recipient") as other than an employer. This provision is elective; it will apply only where the

service-recipient supplies a written contract and notice of tax responsibilities to the worker prior to the service being performed and only if the service-recipient complies with information reporting requirements.

To qualify under the safe harbor provided in S. 2369, an individual must meet all three of the following additional requirements:

(1) Control of hours worked test -- The individual must control the aggregate number of hours worked and substantially all of the scheduling of the hours worked;

(2) Place of business test -- If the individual has a principal place of business, it cannot be provided by the service-recipient unless the individual pays a fair rental for it (incidental use of the service-recipient's premises will not disqualify an individual);

(3) Investment or income fluctuation test -- The individual must either (a) have an investment in tangible assets which are of significant value in the performance of the service and a substantial economic investment in light of the remuneration received, or (b) risk income fluctuation because more than 90 percent of the remuneration is directly related to sales or other output rather than to the number of hours worked.

I would like to comment on each of these tests.

Control of Hours Worked Test. The tests making up a safe harbor should be designed to indicate whether withholding on a worker's gross remuneration is accurate. In our view control of a worker's hours is seldom relevant to this determination; nevertheless, it is an important factor under common law and is not inappropriate to include in a safe harbor.

The bill makes clear that an individual can satisfy the control of hours test even though control may be limited as a result of (i) government regulations, operating procedures and specifications with which the service-recipient must comply, (ii) coordination of the services with other services so long as such coordination is done by a person other than the service-recipient, or (iii) control of access to premises

by the service-recipient. With these qualifications, the control of hours test in the bill is easily met in most instances. The line between control of hours and control of access to premises or work sites can be a fine one. If a safe harbor is to be clear and easily administered -- that is, safe -- the tests for it must be relatively objective. Control of hours is difficult to determine and subject to manipulation. If this test is included, it should be more tightly drawn.

Place of Business Test -- We agree that an investigation of a taxpayer's investment in his business can be a surrogate for determining whether his gross remuneration approximates his net income. We thus agree that a place of business test is appropriate, provided that the test is met only if there is a place of business which represents a substantial investment. If the place of business is at the taxpayer's home, it must qualify under section 280A of the Code. Furthermore, the place of business should be separate from that of the service-recipient. Allowing an individual to satisfy the safe harbor even though the place of work is provided by the service-recipient could be subject to manipulation. Many existing compensation arrangements could easily be modified to meet this requirement. It should be clarified that a percentage of commissions, for example, could not be designated as "fair rental," and that a fixed dollar payment would be needed as an indication that the payee bore some risk.

Investment or Income Fluctuation Test -- The third test of the safe harbor rules in S. 2369 is one designed to determine whether a worker is "economically independent" because he has a substantial investment in assets or because he risks income fluctuation. We believe that the investment in assets test in S. 2369 provides sufficient flexibility to cover instances in which individuals have substantial capital invested in their businesses. It is important, however, that situations in which the property either is leased from or financed by the service-recipient be carefully circumscribed, so that only arm's length arrangements could meet this test. Thus, a lease term must be significant in relation to an asset's useful life; assets which are leased on a short-term or per job basis should not be taken into account.

Turning to the income fluctuation test in the bill, it should be made clear that if remuneration is provided in the form of guaranteed amounts, reimbursed expenses or other benefits, this test could not be met. The test is meaningless

if it does not insure that the worker bear some risk of loss. Moreover, we think that an income fluctuation test raises questions from a compliance and administrative standpoint. If the worker bears a risk of loss but does not have significant unreimbursed expenses, withholding under the current system may be feasible, especially if the worker has a continuing relationship with a single payor. This could be true if the taxpayer's occupation is not subject to cyclical downturns or other recurring events that would cause his income to fluctuate widely within a year. We think that a more meaningful test would be the amount of the individual's unreimbursed expenses of a particular type, such as payroll expenses, supplies, or the cost of goods sold, in relation to his income. Where a worker has substantial unreimbursed expenses which would cause withholding to overstate his periodic tax payments, safe harbor treatment would be justified.

To summarize our position, we support the retention of common law and a safe harbor, but the safe harbor must be tailored to include only those taxpayers for whom withholding under the current system would be most inappropriate. We think a preferable safe harbor would be one covering only cases in which an individual is paid on other than an hourly or salaried basis and meets one of the following conditions: (1) The worker maintains a principal place of business, including a part of the home qualifying under section 280A, (2) has substantial assets used in connection with the performance of the services, or (3) incurs substantial unreimbursed expenses of a particular type, such as payroll expenses, supplies, or the cost of goods sold, in performing the services. We also would adopt the requirements of S. 2369 with respect to written contracts, notice, and compliance with information reporting.

Further, we would require an "anti-switching" rule, which would prevent employers who have treated their workers as employees under current law from switching these workers to independent contractor status merely because insubstantial changes in the employment relationship could qualify under the safe harbor adopted. The possibility of switching demonstrates how important it is to craft any safe harbor carefully. However, it will not be possible even under the best circumstances to anticipate every relationship. Therefore, some protection must be provided to prevent employees with an inferior bargaining position from being switched to independent contractor status by their employers. S. 2369

recognizes this problem by providing a transition rule that would prevent this type of switching before January 1, 1983. It is appropriate that this type of switching be prevented permanently.

In addition to providing a safe harbor test, S. 2369 contains several special rules. It provides that the safe harbor will not apply to any individual described in section 3121(d)(3) of the Code (that is, certain agent-drivers, commission-drivers, full-time life insurance salesmen, home workers, and traveling or city salesmen). This provision is an appropriate recognition of the long-standing employee status of these workers and we do not oppose this provision.

Next, the bill provides that relationships failing to meet the safe harbor test would be classified under common law rules, as if the safe harbor test were not enacted. We agree that failing the safe harbor test would not create a presumption against independent contractor status.

S. 2369 also provides that qualification as an independent contractor under the safe harbor test for purposes of Federal employment taxes and withholding would create no inference with respect to other laws. This is appropriate, since the policies behind state unemployment compensation laws or labor relations acts may be very different from the policies for Federal tax purposes, even though these statutes may in many instances also rely on common law rules.

Finally, individuals who qualify under the safe harbor as independent contractors would be denied statutory employee benefits, including the exclusion for employer provided group term life insurance, death benefits, accident and health benefits, group legal services, education assistance plans, and pension, profit-sharing, stock bonus or annuity plans. The bill clarifies that these individuals would be eligible for Keogh plans, however. Again, this is an appropriate recognition that independent contractors are self-employed businesses and that employee benefits should not be available.

Information Reporting

The remainder of S. 2369 deals with the question of how to raise the compliance of those workers who are classified as independent contractors and who are thereby exempt from withholding under current law. I will confine my remarks on these provisions to the approach adopted in the bill.

As under current law, S. 2369 would require that persons engaged in a trade or business file information returns on remuneration in excess of $600 during the calendar year paid to any person for services. However, the bill would expand information reporting by the direct sales industry. Anyone in the trade or business of selling consumer products to any buyer on a buy-sell, deposit-commission, or any similar basis for eventual resale in the home would be required to report gross sales of $5,000 or more. However, a seller could elect instead to report remuneration (that is, commissions, bonuses, prizes, etc.) in excess of $50 paid during the calendar year. A payor making this election also would be required to supply to IRS the name and identification number of each buyer to whom the payor has sold goods of $50 or more during the calendar year.

S. 2369 would replace the present modest penalty for failure to file information returns or to supply copies to payees with a penalty of up to 5 percent of the amount of remuneration which should have been included on the return. The amount of the penalty increases in two stages, based upon the reporting agent's overall compliance rate. Failure of a direct seller who elects to supply information on sales above $50 would be subject to the penalty applicable under current law for failure to file information returns with respect to independent contractor payments -- $10 for each failure, not to exceed $25,000 during any calendar year.

S. 2369 also would extend withholding where a payee fails to provide a taxpayer identification number to a payor, or where if the IRS determines that the taxpayer identification number provided is incorrect. This provision also is contained in S. 2198, "The Taxpayer Compliance Improvement Act of 1982."

We recognize that information reporting on taxable transactions is valuable both to the government -- to enable it to check the information reported by taxpayers through matching and other means -- and to the vast majority of taxpayers who conscientiously attempt to report all of their income. We have several comments and suggestions regarding the changes with respect to information reporting that are contained in S. 2369.

Under current law, the threshold for information reporting is $600, which is largely unchanged by S. 2369. It would be appropriate to consider substantially lowering this figure with respect to payments for services. Indeed,

in the area of interest and dividends, the reporting threshold is currently $10, and wages are reported from the first dollar earned. Compliance would improve if taxpayers knew that their payments had been reported to the Internal Revenue Service.

We welcome the recognition in S. 2369 that information reporting by direct sellers should be expanded. As you know, initially our view was that information reporting on a specific dollar amount of gross sales would be of use to the Internal Revenue Service both in identifying individuals in this industry with self-employment income and in verifying gross receipts reportable on Schedule C. However, the Service has been considering what information from the direct selling industry it could best use to determine accurate tax liabilities in this area. After close examination, and taking into account the difficulties in comparing gross sales with amounts reported by taxpayers on their returns, the Service now has concluded that they will better be able to utilize mandatory information reporting on commissions, bonuses, prizes, etc., in excess of $100 in the calendar year. At the same time, the Service must have some means to obtain information on those sellers who are compensated only by the difference in the price at which they purchase goods and then resell them for use in the home. We therefore support reporting of the name, address, and taxpayer identification number for gross purchases in excess of $100 annually. In addition, while the penalty for failure to file a return of this type must be a flat dollar amount per failure, we think the maximum limit on the penalty should be at least $50,000.

We do not think that an exception to the normal unlimited statute of limitations for failure to file a return should be made for information returns required to be filed with respect to independent contractors, as S. 2369 would do. Recordkeeping requirements exist for all taxpayers. We believe that this provision should be dropped from the bill.

With respect to the penalties contained in S. 2369, we have the following comments. Penalties in a voluntary compliance system must both deter behavior that would impair the system and, at the same time, take into account reasonable errors or omissions made in good faith. This second element is particularly important given the difficult questions of classification in determining employee status under the tax laws. We believe that a percentage penalty for failure to file or to furnish information returns relating to independent contractors is appropriate, as S. 2369 would provide. However, the step increases in the penalty rate based upon

the reporting agent's overall compliance is complex and could prove difficult to administer. It could only be imposed after the reporting requirements of a payor are fully determined for a calendar year, which delays and adds uncertainty to the determination of whether a penalty will be due and at which level it will be imposed. Although we appreciate that its purpose is to provide a stiffer penalty on large payors for noncompliance, we think a penalty computed as a percentage of compensation not reported is adequate.

Finally, imposing withholding where there is a missing or incorrect taxpayer identification number is an appropriate and desirable sanction, although we understand that there may be some technical questions as to how this can best be accomplished. Defective information reports are in many cases worthless to the Service, and those that are corrected are done at substantial expense. By implementing source withholding on persons not willing to provide correct numbers, this provision will place the onus of correct information reporting on the person best able to insure that the reporting is accurate.

ADDITIONAL COMMENTS

FICA/SECA Differential

Significant economic incentives encourage payors and workers to seek independent contractor status, apart from the exemption from income tax withholding. The social security taxes imposed on independent contractors under the self-employment contributions act (SECA) are lower than the taxes an employee must bear under the Federal insurance contributions act (FICA). Even though one-half of the FICA tax is paid by the employer, it is generally agreed that this burden is in fact borne by the employee in the form of lower wages. In 1982, FICA taxes on wages are a combined rate of 13.4 percent on the first $32,400, while self-employment income (income net of expenses) of $32,400 is subject to SECA tax of 9.35 percent. Based on similar earnings histories, independent contractors and other self-employed persons receive the same social security benefits as employees, even though they contribute significantly less to the trust funds.

It would be possible to reduce the tax advantages inherent in independent contractor status by more closely conforming the FICA and SECA tax rates. A change of this nature could help neutralize the decision whether to hire an

independent contractor or an employee and relieve pressure on the question of employment status. Correcting the disparity between the FICA and SECA tax rates should be given consideration in the future as part of the broader issue of social security financing. The Treasury Department intends to communicate our concerns in this area to the commission currently studying the social security issue.

Procedural Issues in Employment Tax Audits

In his introductory remarks to S. 2369, Senator Dole invited comments with respect to procedural issues which contributed to the controversy in employment tax audits. Prior to the adoption of section 530 of the Revenue Act of 1978, when the Internal Revenue Service determined on audit that workers should have been classified as employees rather than as independent contractors, the employer was liable for the employer share of FICA and Federal unemployment tax (FUTA) payments and for the income and FICA taxes which should have been withheld from the employee, for all past years for which the statute of limitations had not expired. In addition, reclassification could call into question the status of the employer's pension plan. Furthermore, the liability for income taxes which should have been withheld could be abated only if the payor could prove that the workers had in fact paid their income taxes, which frequently was impossible because in many instances the workers could not be located. Even when workers could be located, the burden of establishing their tax liability often was time consuming and costly. Moreover, the payor's liability for FICA taxes which should have been withheld could not be offset by any SECA taxes paid by the worker (assuming the SECA tax had in fact been paid), unless a worker was barred from filing a claim for refund by the statute of limitations. As a result, liabilities for taxes not withheld could result in more than the actual tax liability being collected but neither the payor nor the Internal Revenue Service had an adequate means for determining how to abate the tax.

All tax assessments in our system are, and should be, retroactive. However, the SECA and income tax offset problem in employment tax cases does present a matter for concern, particularly for a taxpayer who had a reasonable basis for classifying a worker as an independent contractor. One approach to be considered, for a limited class of taxpayers, would be to provide that where a taxpayer had a reasonable basis to rely on judicial precedent or published rulings relating to the taxpayer's industry and had complied with

all reporting requirements, the taxpayer's liability would be limited to the employer portion of the FICA tax and FUTA, plus a low flat percentage of the income taxes that should have been withheld. A concomitant adjustment to the coverage of the workers for benefit purposes also might be needed. We are hesitant, however, to establish any precedent for abating retroactive assessments, and we would not extend this type of relief to other than a narrowly drawn class of payors. In addition, it is important not to erode the consequences of inappropriate classification to such an extent that employers will be willing to take the risk of misclassifying workers. We would be happy to work with this Committee to consider further an appropriate provision in this area.

It has been suggested that another way to deal with the harsh retroactive assessment problem would be to provide a mechanism for declaratory judgment relief or prepayment review in the Tax Court. At this point, expanding the Tax Court jurisdiction to employment tax cases would be very unwise. The Tax Court docket is already vastly overburdened. Existing procedures in employment tax cases already provide access for taxpayers to the Court of Claims or district courts based upon payment of a small fraction of the amount actually at issue. Providing Tax Court jurisdiction would not facilitate review. Moreover, the benefits of employee status are retroactive. A worker treated as an employee will be entitled to benefits regardless of whether FICA has been withheld. Thus, postponing liability until a declaratory judgment proceeding is resolved could prove costly to the trust funds.

SUMMARY

In dealing with the employee-independent contractor issue, our principal concern remains compliance. The Treasury Department supports the adoption of a safe harbor provision to clarify the tax status of workers for employment tax purposes, if this provision is carefully drawn and accompanied by significantly increased compliance measures. We think that the common law is adequate to deal with workers in all other instances, so long as some relief from retroactive assessments is considered for those taxpayers with a reasonable basis for classification.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

102890
LIBRARY
APR 28 '82
DEPARTMENT

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
April 27, 1982

STATEMENT OF MARK E. STALNECKER
DEPUTY ASSISTANT SECRETARY OF THE TREASURY (FEDERAL FINANCE)
BEFORE THE COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

It is a pleasure to be here to discuss, from a debt management perspective, the Department's requests for legislation to repeal the interest rate ceilings on savings bonds and on Treasury marketable bonds. I would like to state at the outset that this Administration abhors interest rate ceilings as ineffective attempts to control prices and incompatible with our commitment to a free market pricing system. We view these particular interest rate ceilings as anachronisms which serve only to frustrate the efficient management of the public debt.

Savings bonds

For most of the past forty-five years, the savings bonds program has been a relatively stable source of funds, financing a significant portion of the public debt. The program broadens the market for Government securities, and the cash raised by savings bonds reduces the amount of borrowing that the Treasury must undertake on a competitive basis in the open market. The relatively long maturity of savings bonds helps with Treasury's

current objective of achieving a better maturity structure of the public debt. Also, savings bonds have proved to be a cost-effective means of financing the debt, with ultimate savings to the American taxpayer.

The program generally has been popular with the American people, has helped instill a habit of thrift among small savers, and has received broad support from leaders of industry and finance. Yet the future role of the savings bonds program in financing the public debt will depend primarily on the interest rate on savings bonds relative to rates on competing instruments.

Sales of savings bonds increased dramatically in the 1970's, from about $4.8 billion in 1970 to a post World War II peak of $8.0 billion in 1977 and 1978, and sales exceeded redemptions by $1.5 billion in the period 1970-1977. But, as market rates of interest began to increase in 1978, redemptions began to exceed sales, and, as shown in Chart 1 attached to my statement, there has been a substantial cash drain from the Treasury each year since 1978.

Legislation enacted in October 1980 authorized Treasury to increase the interest rate on savings bonds by up to one percent during any six-month period. Accordingly, Treasury increased the maximum rate on savings bonds from 7 percent to 8 percent on November 1, 1980 and to 9 percent on May 1, 1981. Yet the maximum rate increases permitted under existing law have not been sufficient to stem the savings bond cash drain from the Treasury, because of higher interest rates available from other market instruments.

Savings bond redemptions exceeded sales by over $5 billion in 1979, over $11 billion in 1980, nearly $9 billion in 1981, and by $2 billion in the first 3 months of 1982.

This substantial cash drain from the savings bond program -- $27.8 billion since 1978 -- must be financed by other, more expensive, Treasury borrowing, namely the issuance of additional marketable securities at interest rates much higher than the savings bond rate. Interest rates on Treasury marketable intermediate notes and bonds are currently around 14 percent, compared to the current guaranteed rate of 9 percent paid to Series EE bond holders after 8 years.

To stem the cash drain, Treasury must assure savings bond investors that they will receive a fair rate of return throughout their holding period. Thus Treasury must be able to promise the small saver that the rate on savings bonds will vary with market rates of interest. Large investors can achieve this assurance through investment in short-term Treasury bills.

The alternative of raising the savings bond rate to, say, 10 percent now and possibly a higher rate later, under existing legislation, was rejected by Treasury. While such rate increases might over time reduce the savings bond cash drain, they would be relatively expensive over the long run if market rates of interest declined. In this regard, savings bonds differ from long-term marketable debt. Holders of marketable securities do not have the option of redeeming their securities at par, and thus bear market risk not borne by savings bond investors. Also, there is no way

under existing legislation that Treasury could assure long-term savers that the rate on savings bonds would continue to be competitive with current market rates. The need is for a savings bond rate that automatically increases, and decreases, with market rates, and that is what we propose. Simply stated, the major change will be that people holding either new or old bonds for at least 5 years from the beginning of the new program will be assured that their return will be no less than 85 percent of the average return on 5-year Treasury marketables during their holding period. They will also be guaranteed a minimum rate; so they will receive 85 percent of the average market yield on 5-year Treasury securities over the holding period, or the guaranteed minimum rate, whichever is higher. Five-year Treasury marketable securities currently are yielding about 14 percent. If this rate prevailed over the holding period, the savings bond rate would be 11.9 percent.

The rate paid on savings bonds must be less than the marketable rate for several reasons: (1) savings bonds are available in smaller minimum denominations and therefore entail higher administrative costs; (2) savings bonds have tax deferral advantages which increase their effective yield after taxes (relative to marketable securities); and (3) savings bonds are redeemable at par, thereby eliminating the risk of market value depreciation inherent in ownership of marketable Treasury notes. On this basis, a rate on savings bonds equal to 85 percent of the rate on marketable Treasury five-year notes is a fair rate of return.

A healthy savings bonds program is not only good for small savers it is good for the Treasury too. Even at the higher market-related rates we propose to pay to savings bond holders the costs to the Treasury will be less than the alternative cost of financing this debt in the open market. Thus the longer we delay the introduction of the new variable rate savings bond the greater the cost of financing the debt.

Long-Term Bonds

I would like to turn now to our proposal to repeal the interest ceiling on marketable Treasury bonds.

The maximum interest rate that the Treasury may pay on marketable bonds has long been limited by law to 4-1/4 percent. This limit did not become a serious obstacle to Treasury issues of new bonds until the mid-1960's. At that time market rates of interest rose above 4-1/4 percent and the Treasury was precluded from issuing new bonds. The average length of the privately-held marketable debt of the Treasury declined steadily from 5-3/4 years in mid-1965 to about 2-1/2 years in 1975, because of the heavy reliance by the Treasury on short-term bill financing of the large budget deficits during this period (See Chart 2).

Congress first granted relief from the 4-1/4 percent ceiling in 1967 when it redefined, from 5 to 7 years, the maximum maturity of Treasury notes. Since Treasury note issues are not subject to the 4-1/4 percent ceiling on bonds, this permitted the Treasury to issue securities in the 5 to 7 year maturity area without regard to the interest rate ceiling. In the debt limit act of March 15, 1976,

the maximum maturity on Treasury notes was increased from 7 to 10 years. Today, therefore, the 4-1/4 percent ceiling applies only to Treasury issues with maturities in excess of 10 years, and certain amounts, such as bonds held by the Federal Reserve and Government accounts, have been exempted from this ceiling. In 1971, Congress authorized the Treasury to issue up to $10 billion of bonds without regard to the 4-1/4 percent ceiling. In 1973 Congress relaxed the $10 billion limit by applying it only to private holdings. The dollar limit since has been increased from time to time, most recently on October 3, 1980, when the limit was raised to $70 billion to accommodate additional long-term financing (See Chart 3).

Since 1975 the Treasury's debt extension policies have moved the average length of the marketable debt from 2 years, 5 months in January 1976 to 4 years, 1 month in March 1982, thus reducing the administrative burden and the market-disrupting effects of frequent Treasury operations to refund maturing issues. Yet while the Treasury has significantly improved the maturity structure of the debt in recent years, almost one half of outstanding marketable debt matures within one year (See Chart 4). This refunding need must be added to Treasury's new cash borrowing requirement to determine gross Treasury issuance in the market. Because of the short average maturity of outstanding Treasury debt, long bond issuance must remain an integral part of Treasury's debt management policy.

Some observers have suggested that Treasury should avoid the sale of long-term securities when interest rates are "high", in order to avoid locking in high interest costs. However, any definition

of "high" interest rates is extremely subjective and carries with it an implicit forecast of future interest rates. If Treasury "temporarily" withdrew from the bond market because it felt rates were "high", market reaction to reentry in the long market could well be that rates were "low". Thus reentry could be interpreted as a Government forecast of higher rates in the future. Management of the debt based on interest rate forecasts would create tremendous uncertainty as to Treasury's financing schedule and, over the long run, would result in higher costs to the Government by reducing the market's willingness to bid in auctions. Therefore, a consistent policy of debt issuance across the maturity spectrum must be maintained without regard to expected interest rate developments.

I would also note that, because of the large volume of maturing obligations refinanced each year, interest expense on the public debt is extremely sensitive to interest rate movements. This adds volatility to the interest expense component of Federal outlays. As interest rates move up and down, Treasury's interest expense also rises or falls. As long as the debt outstanding retains this short-term character, debt extension must be a part of our debt operations.

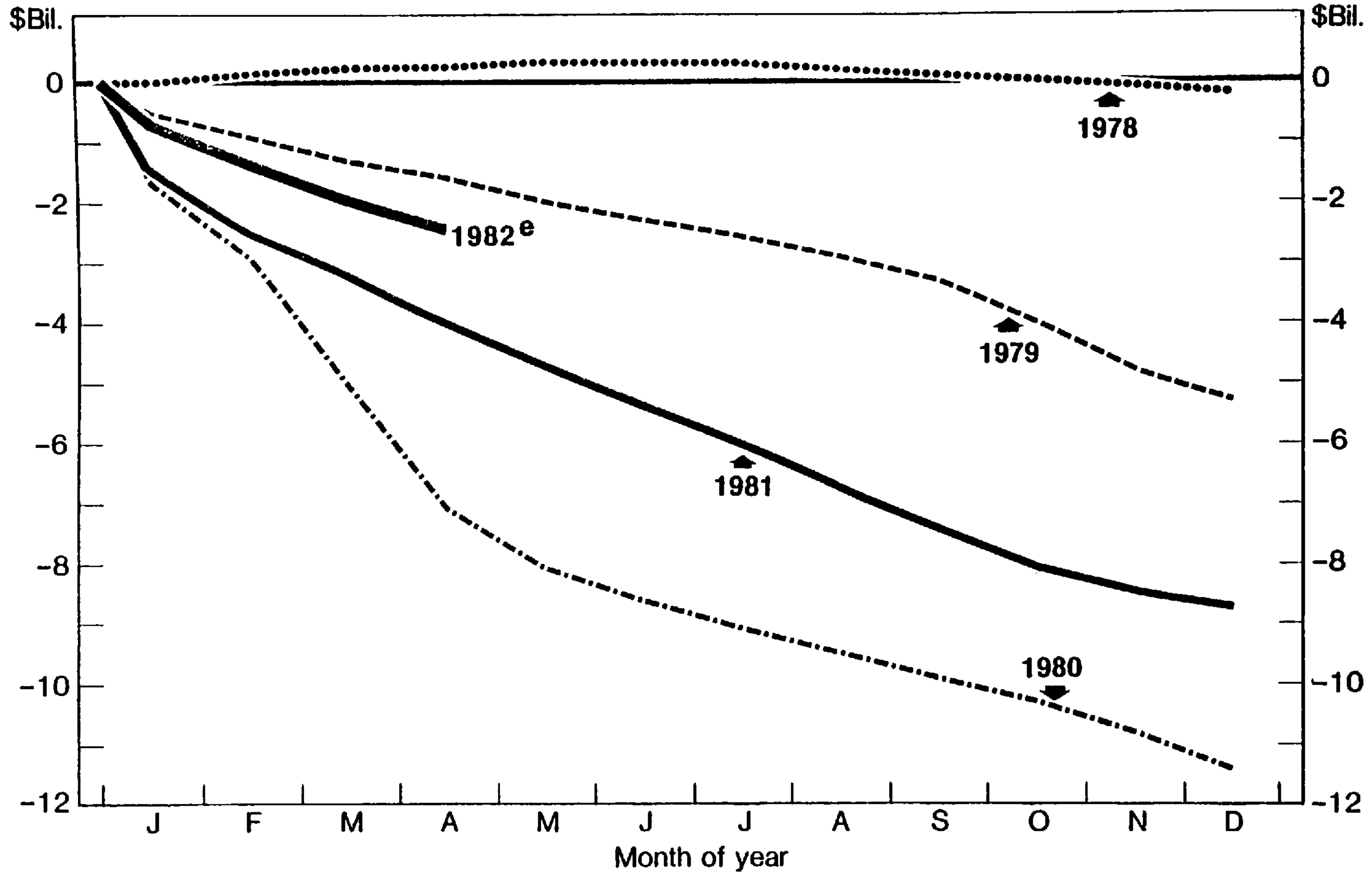
At this point I would like to note that market uncertainty has recently arisen because of Congressional inaction on Treasury's request to repeal the 4-1/4 percent ceiling on long bonds. As mentioned earlier, the face amount of Treasury bonds held by the public with interest rates in excess of 4-1/4 percent may not exceed $70 billion. Treasury has exhausted this authority (See Chart 3).

Unless Congress repeals the 4-1/4 percent ceiling, or grants additional issuing authority, no more bonds may be sold. In fact, Treasury was forced to cancel its regular auction of 20-year bonds last month, and would normally announce its regular auction of 30-year bonds tomorrow. It cannot do so because of Congressional inaction. Inability to sell these securities has created dislocations in the market and raised questions about the Treasury's ability to carry out predictable, prudent debt management policies. I urge Congress to expedite the long bond authority legislation so that this uncertainty can be resolved.

In conclusion Mr. Chairman, we face large borrowing requirements over the foreseeable future. A viable, modern savings bonds program and removal of the 4-1/4 percent ceiling on Treasury marketable bonds will help the Treasury meet these financing needs in an efficient, cost-effective manner. Interest on the public debt is estimated to total a record $116 billion in FY 1982. We must make every effort to reduce this staggering cost to the taxpayer. Especially at this time of severe budget stringency, we must not add to our budget costs by mismanaging the public debt.

oOo

Chart 1

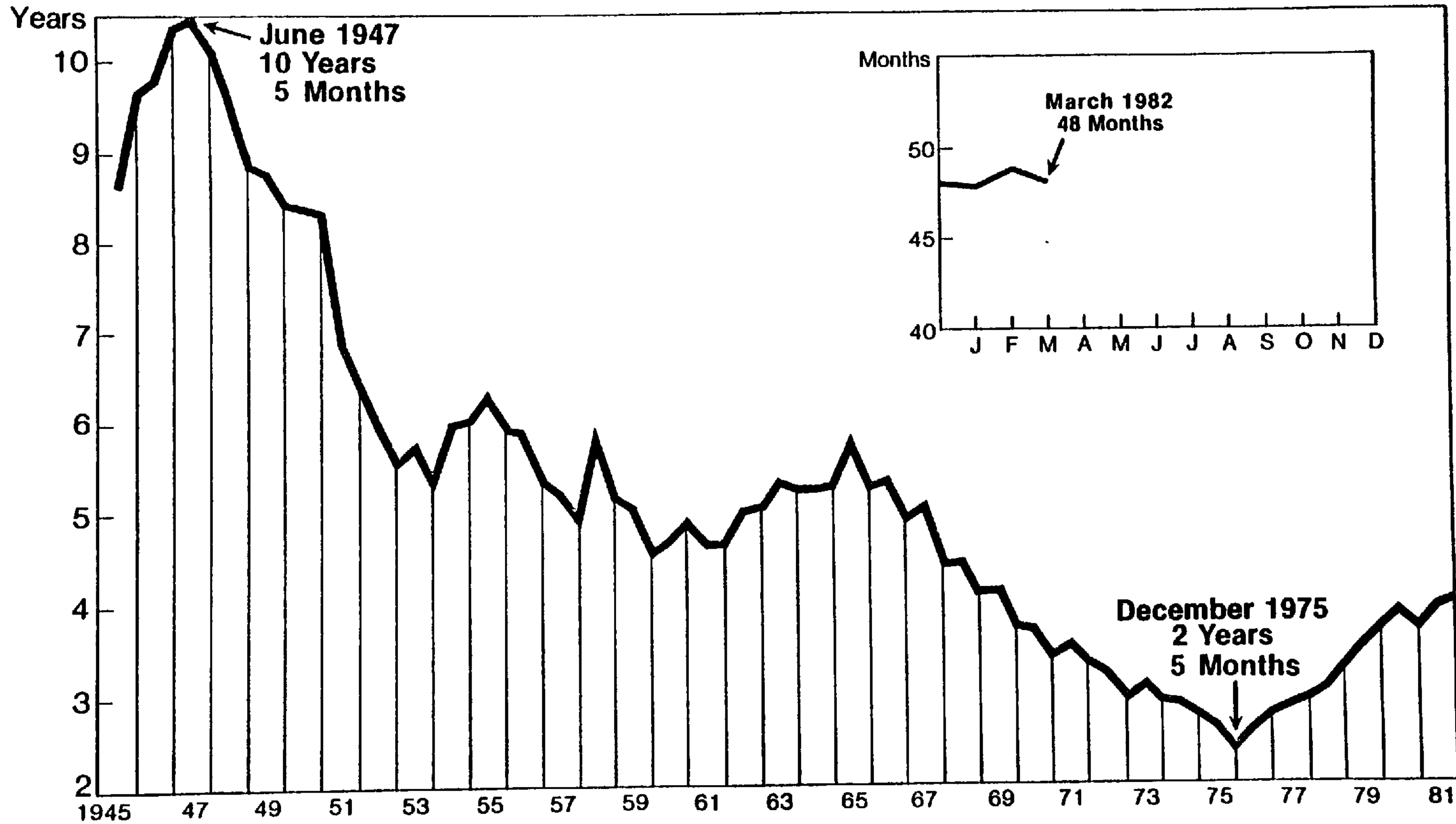


1/ Cash sales less redemptions
e April 1982 partly estimated

Office of the Secretary of the Treasury
Office of Government Financing

April 27, 1982-1

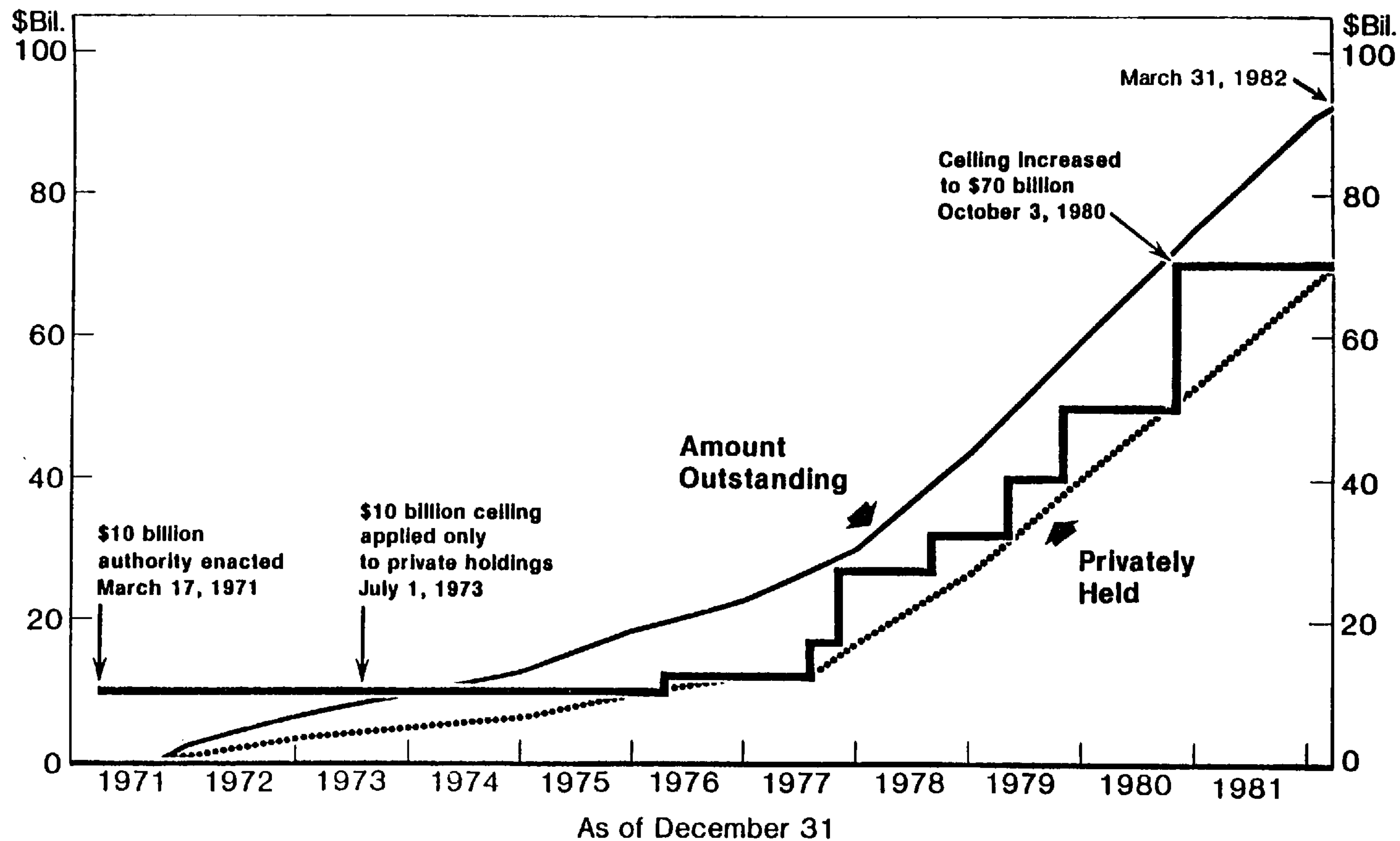
Chart 2



Office of the Secretary of the Treasury
Office of Government Financing

April 27, 1982-3

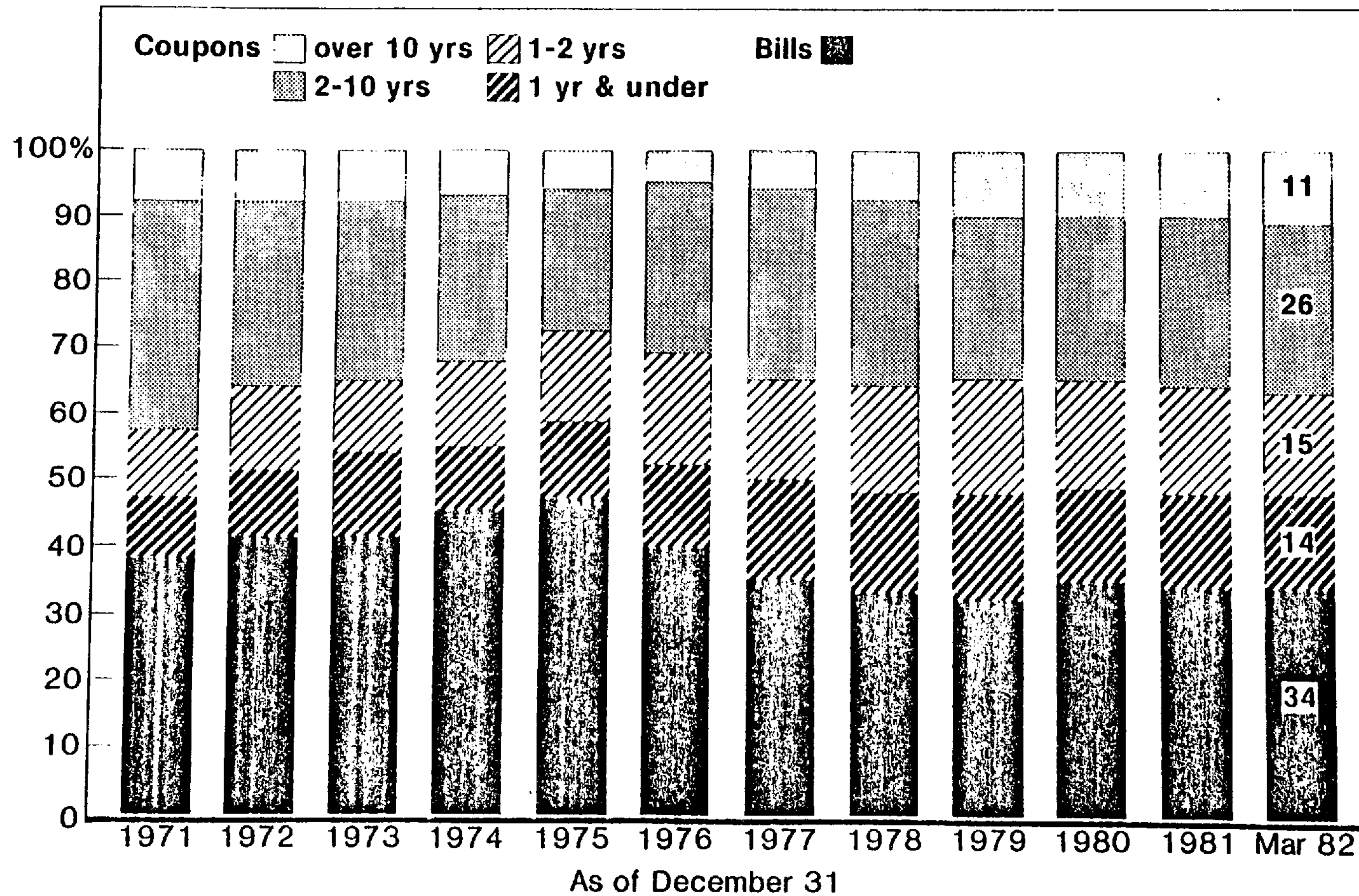
Chart 3



Office of the Secretary of the Treasury
Office of Government Financing

April 27, 1982-4

Chart 4



Office of the Secretary of the Treasury
Office of Government Financing

April 27, 1982-19

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

April 26, 1982

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 4,700 million of 13-week bills and for $ 4,701 million of 26-week bills, both to be issued on April 29, 1982, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 29, 1982			:	26-week bills maturing October 28, 1982		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.870	12.382%	12.96%	:	93.640 a/	12.580%	13.62%
Low	96.839	12.505%	13.09%	:	93.601	12.657%	13.71%
Average	96.848	12.469%	13.05%	:	93.610	12.640% 2/	13.69%

a/ Excepting 2 tenders totaling $410,000.

Tenders at the low price for the 13-week bills were allotted 8%.
Tenders at the low price for the 26-week bills were allotted 86%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 55,760	$ 44,010	:	$ 113,180	$ 76,680
New York	10,259,015	3,171,815	:	10,646,955	3,260,255
Philadelphia	98,560	70,560	:	23,140	23,140
Cleveland	69,080	48,080	:	124,920	116,420
Richmond	42,790	38,005	:	127,085	101,085
Atlanta	63,265	63,065	:	58,915	58,685
Chicago	918,555	349,555	:	772,400	240,500
St. Louis	32,985	21,985	:	36,275	19,275
Minneapolis	12,520	10,520	:	14,295	12,295
Kansas City	48,525	48,525	:	54,455	54,455
Dallas	23,160	23,160	:	17,560	17,560
San Francisco	744,195	539,195	:	1,174,600	434,600
Treasury	271,575	271,575	:	285,895	285,895
TOTALS	$12,639,985	$4,700,050	:	$13,449,675	$4,700,845
Type					
Competitive	$10,418,910	$2,478,975	:	$11,096,900	$2,348,070
Noncompetitive	1,119,340	1,119,340	:	950,475	950,475
Subtotal, Public	$11,538,250	$3,598,315	:	$12,047,375	$3,298,545
Federal Reserve	858,035	858,035	:	858,000	858,000
Foreign Official Institutions	243,700	243,700	:	544,300	544,300
TOTALS	$12,639,985	$4,700,050	:	$13,449,675	$4,700,845

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 12.765%.

R-744

FOR IMMEDIATE RELEASE APRIL 26, 1982

The Treasury announced today that the 2-1/2 year Treasury yield curve rate for the five business days ending April 26, 1982, averaged 14.10 % rounded to the nearest five basis points. Ceiling rates based on this rate will be in effect from Tuesday, April 27, 1982 through Monday, May 10, 1982.

Detailed rules as to the use of this rate in establishing the ceiling rates for small saver certificates were published in the Federal Register on July 17, 1981.

Small saver ceiling rates and related information is available from the DIDC on a recorded telephone message. The phone number is (202)566-3734.

Approved

Francis X. Cavanaugh
Acting Director
Office of Market Analysis
& Agency Finance

TREASURY NEWS

partment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE 9:00 p.m. EDT
April 27, 1982

MCNAMAR ADDRESSES ASIAN
DEVELOPMENT BANK

Deputy Secretary of the Treasury, Mr. R.T. McNamar, speaking at the Asian Development Bank's Fifteenth Annual Meeting, said that market-based economic growth represented the best opportunity to improve world economic well-being, and that the centrally-planned economic model had been discredited.

McNamar told the assembled delegates to the Bank's Annual Meeting in Manila that those Asian countries following sound economic policies - "encouraging free and open markets, reducing barriers to entry, minimizing government regulation, allowing the market to set prices and maximizing the role of private enterprise" -- were some of the fastest growing countries in the World.

"Their records," McNamar stated, "contrast sharply with the stagnation and inefficiency plaguing the centrally-planned economies of Asia and the rest of the World."

McNamar commended the ADB for its part in promoting these market-oriented policies in its borrowing members, and reiterated the United States' long-standing support for the Bank. He also urged the Bank to step up its co-financing activities with private financial sources and supported the Bank's move into equity financing.

# # #

TREASURY NEWS

partment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY
Expected at 11:00 A.M., April 28, 1982, Manila, The Philippines
9:00 A.M. April 27, 1982 E.D.T.

Remarks by R. T. McNamar
Deputy Secretary
United States Governor's Speech
Fifteenth ADB Annual Meeting
Manila, The Philippines
April 28, 1982

INTRODUCTION

Mr. Chairman, President Fujioka, fellow Governors, ladies and gentlemen. It is an honor and a privilege to address this session of the Fifteenth Annual Meeting of the Asian Development Bank. Secretary Regan has asked me to extend to you his personal regards and best wishes for a successful meeting. He is unable to be here today because he is personally involved this week in negotiating the details of our proposed fiscal compromise with the Congress.

This is an especially pleasant opportunity for me to represent the United States, as it was my good fortune to lead the host delegation a year ago in Honolulu, when the ADB held its annual meeting in the United States. As a Californian, I think its natural to look first to Asia and the Pacific when the international economy is discussed. I used to see the Pacific Ocean each day in Los Angeles. A number of other top Administration officials also come from California and thus this Administration, perhaps more than others, has a special interest in developments in the Pacific.

I would also like to express my appreciation for the warmth and hospitality which have been extended to our delegation by the government and people of the Philippines.

President Fujioka, this represents your first involvement in an ADB annual meeting as President. I wish you every success and am confident you will carry on the fine record of accomplishment established by your three predecessors - Presidents Watanabe, Inoue, and Yoshida.

I would also like to congratulate the Bank management and the delegations to the Asian Development Fund replenishment negotiations for their efforts in reaching a successful conclusion to ADF IV.

THE U.S. ECONOMY

Let me touch briefly on a subject which bears not only on the ADB, but also on all its member countries as well - the U.S. economy.

In the first quarter, the U.S. economy remained weak and, frankly, recovery has been delayed longer than we had anticipated. However, we have seen the bottom of the recession and the President's economic recovery program will work -- of that we remain confident. Persistently high interest rates and pessimism over our ability to affect a fiscal compromise between two equal government entities, have delayed the recovery.

Many American businessmen are worried that excessive government spending which results in large budget deficits, will mean high interest rates for the foreseeable future. Understandably, they are waiting for evidence that the political will exists, particularly in the Congress, to cut government spending both in its rate of growth and as a percent of GNP. We are confident that the current discussions with Congressional leadership will provide adequate assurance that the United States still has the political will to make difficult economic decisions that are politically unpopular.

At present, interest rates in the United States remain unacceptably high, but some progress is visible. The prime rate has fallen from over 20 percent in the third quarter of 1981, to 16-1/2 percent currently. The three-month Treasury bill rate, which last May was over 16 percent, is now about 12 percent. We anticipate substantial reductions in interest rates in the months ahead, in light of our progress on the inflation front. As U.S. interest rates fall, MDB borrowers will benefit significantly from reduced debt service burdens.

Our progress in curbing inflation has been even greater than we forecast, even though our forecasts were once called excessively optimistic by many critics. Our inflation rate, as measured by increases in the consumer price index (CPI), has fallen from the double digit rates of 13.3 percent in 1979, and 12.4 percent in 1980, to 8.9 percent in 1981. Based on first quarter results in 1982, we can anticipate consumer price inflation this year of around 6 percent, and some forecasts are suggesting 4 to 6 percent, depending how low interest rates drop.

The Reagan Administration came into office determined to get inflation under control, and we are doing just that. [Chart I]

Another part of our program is to bring money supply growth down. That growth is down. We support the Federal Reserve's 1982 targets of 2-1/2 to 5-1/2 percent money growth. A decline in monetary growth will bring inflation down, and a decline in inflation will, in turn, bring interest rates down. The current level of interest rates in the U.S. is not justified by current inflation rates. Real interest rates, which are exceptionally high [see Chart II] , will not continue at these levels. They must come down, if inflation continues at current levels and excessive government spending is brought under control. For such an economically sophisticated audience as this, I need not elaborate the benefits for the U.S. economy, and for the developing countries, which that decline in interest rates will bring.

THE ECONOMY OF THE ASIAN-PACIFIC REGION

The Asia-Pacific region has been widely recognized as the most dynamic area of economic growth in the World. The rates of growth achieved by countries such as Korea, Hong Kong, Taiwan, Singapore, Malaysia and Thailand consistently rank at the top in comparison to all countries. The Pacific Basin has become synonymous with dynamic markets, expanding opportunity, and economic progress. The rest of the world looks to the economic progress of this region with respect and admiration.

This progress is no accident. The rapidly developing countries of Asia are the countries that have most closely followed policies designed to stimulate economic growth. These policies include encouraging free and open markets, reducing barriers to entry, minimizing government regulation, allowing the market to set prices, and maximizing the role of private enterprise and development capital -- both ODA and private capital.

In the Fifties, there was a tendency for some developing countries to consider the model of a centrally planned economy as appropriate to their condition of underdevelopment. The results of two decades of stagnation and inefficiency have now confined this model, happily, to the "ash can of history." Centrally-planned economies have been shown clearly to suffer from inefficient industries, low labor productivity, large inventories of hoarded materials and unsold goods, import-requirements that out-run export capabilities, consumer expectations that can not be met, and an inability to cope with external change. Their records stand in marked contrast to the market-based economies of Asia and the Pacific.

The United States has a large stake in the progress of the Asia-Pacific region. In terms of trade, East Asia, Southeast Asia, and Oceania combined, represent our largest trading region. These countries accounted for $128 billion of total U.S. trade in 1981, compared to $117 billion for all of Western Europe.

In terms of raw materials, the Asian countries are critical to the U.S. Over 90 percent of our coconut oil, palm oil, and natural rubber comes from this region. Seventy-eight percent of our tin, 68 percent of our plywood, and 63 percent of our wool imports are shipped to the United States from Asia and the Pacific In 1980, Asian countries provided nearly 60 percent of all developing country exports to the United States under generalized preferences. Asia is also a major market for our agricultural exports, taking nearly one-third of the total, or about $13 billion in 1981.

U.S.-Asian trade expansion has also meant expansion of shipping and air freight services, banking, and insurance. The most rapid growth of foreign branches of American banks in recent years has been in East and Southeast Asia. Total assets of these branches now surpass $45 billion.

The U.S. market is also important to the Asian and Pacific countries. The United States represents the largest single export market for the following countries: Japan, Korea, Hong Kong, The Philippines, Sri Lanka, Taiwan and New Zealand. It is the second largest market for Australia, Indonesia, Singapore, Thailand, Bangladesh and India.

In addition to the important flows of capital, investment and technology to the region, the United States remains the largest contributor of official development assistance among the industrial nations. Finally, the United States provides security assistance, important to the maintenance of the peace and stability, which are critical to development.

Against this background of understanding, the interdependence of the Asia-Pacific economy, including the United States, cannot be stressed strongly enough. Each country has an obligation to contribute to the strength of this economy. We believe this can best be accomplished by moving in the direction of free and open markets. Each country must shoulder its share of responsibility in the maintenance of an international economy. The United States will do its part. We expect others to do the same. This is a major component of U.S. foreign economic policy and, in particular, it is a central conclusion of our recently completed assessment of U.S. participation in the MDBs.

THE MDB ASSESSMENT

A year ago I told this group about an evaluation of the MDBs, which the Reagan Administration undertook upon coming into office. We conducted the assessment in order to analyze, as objectively as possible, the strengths and weaknesses of the MDBs, and to establish the policy and budgetary framework for future U.S. participation in the banks.

This assessment has now been completed. It was published in February and has been widely circulated. The assessment reaffirms the role the MDBs play as catalysts for market-oriented economic growth, and urges continued United States support of them. In the report, we concluded that the effectiveness of the MDBs could be improved by strengthening their roles as financial catalysts, and as providers of sound technical expertise and advice on economic policy formulation and administration.

I am pleased to be able to say that the ADB was singled out for considerable praise. It was given particular credit for ranking "highest in institutional efficiency" -- a tribute to the Bank's past and present leadership, as well as its capable professional staff.

Response to the assessment, by the Congress and by the American public, has been quite favorable. As a result, we believe we are better positioned to build the necessary domestic support which will allow for our full and active participation in the MDBs in the future. Some of you may well ask whether our reduced share of the recently concluded ADF IV negotiations is compatible with our pronouncements of support for the MDBs. I believe that it is. This is a time of budgetary constraint, yet the United States has increased its ADF contribution by 17 percent. This compares with a 35 percent reduction in total spending for discretionary non-defense programs, such as the ADF, proposed in our FY 1983 budget.

As you may know, past U.S. Administrations have all too often failed to involve adequately the Congress in replenishment decisions and, as a result, have sometimes been unable to obtain the appropriations necessary to support announced commitments. We are determined to avoid that mistake, and the assessment is a part of our strategy to do so.

Nonetheless, we believe a number of steps can be taken to make the banks more effective. These steps include:

- improving the MDBs as financial catalysts;
- strengthening their private sector focus;
- promoting more effective maturation/ graduation policies; and
- tightening conditionality.

Let me address each of them in some detail.

Financial Catalyst

The Asian Development Bank's role as a financial catalyst is highlighted in the preamble of its Charter:

> "additional development financing [should be made] available for the region by mobilizing such funds and other resources both from within and outside the region, and by seeking to create and foster conditions conducive to increased domestic savings and greater flow of development funds into the region."

As an effective financial catalyst, the bank must seek to stimulate public and private capital, domestic and foreign, through its project selection, technical assistance, economic policy advice, and operational principles.

In particular, we think that this means a stronger effort on the part of the Bank to stimulate greater private sector co-financing of projects. To date, ADB success in stimulating greater private sector co-financing with foreign banks and other financial institutions, has been minimal. Cumulatively, only nine projects have involved co-financing with commercial sources, totaling about $125 million.

We strongly support efforts the ADB has undertaken recently to expand private sector co-financing, including Tuesday's co-financing workshop which was attended by many of you here today. The creation of a co-financing unit is also an excellent step in the right direction.

For our part, the United States has sought to encourage co-financing with the MDBs. We've done so by seeking to improve the regulatory environment affecting co-financed loans, by talking to bankers and other financial representatives about possible changes in co-financing instruments, and by promoting the idea directly with MDB managements. We intend to continue activities of this kind in the years ahead.

Private Sector Focus

The MDBs are not designed to compete with, or substitute for, the private sector. Indeed, the charters of the MDBs call for the Banks to mobilize the private sector for development.

We strongly believe that taxpayers in the donor countries should not be expected to shoulder burdens which can be accommodated by the free play of market incentives. To this end, the ADB can facilitate attractive investment environments in their borrowing members by:

-- encouraging free and open markets;

-- reducing barriers to private capital investment flows;

-- encouraging sound economic policies;

-- limiting the scope of government; and

-- helping those countries prepared to help themselves.

Let me emphasize that our attitude toward international economic issues is consistent with our own internal economic policy. Domestically as well as internationally, we are committed to the free market system. We are convinced that economic growth and productivity can be advanced most effectively, both at home and abroad, through greater reliance on private economic activity.

It is in this light that we have urged the ADB to explore the creation of an equity-financing facility. We are encouraged by the initial reactions to this idea and we look forward to working with the Management and other members to develop an effective and well conceived pilot program.

Maturation/Graduation

Earlier this week, I addressed representatives from the Hong Kong business and financial community. One of the themes I stressed there was the responsibility of every country to consider itself a part of the international economic system and to participate in that system constructively and fairly. Too often, we view the question of responsibility simply from the standpoint of the developed countries. That view is increasingly archaic and counterproductive. Each country, whatever its level of development, has some obligation to the maintenance of a free and open international economic system.

With respect to MDB borrowers, we also define this responsibility in terms of maturation and graduation.

-- <u>Maturation</u> involves the progressive evolution from the status of borrowing only from the soft windows, to the intermediate stage of borrowing a "blend" of soft and hard window funds, and eventually to the status of borrowing only from the hard windows.

-- <u>Graduation</u> implies the cessation of all borrowing from the hard loan windows and full reliance on non-MDB sources of capital.

Maturation and graduation imply that there exists a continuum of benefits and responsibilities in the MDBs as well as in the world economy. No nation, however poor, is free of obligations. Each is expected to do its utmost to institute the appropriate economic policies, to mobilize domestic savings and to seek improvements in productivity in every economic sector.

<u>Conditionality</u>

By the same token, we believe the MDBs should link their loans and technical assistance to the acceptance of appropriate economic policy advice by the borrower. This advice should center on:

-- reducing impediments to market price determination;

-- minimizing producer and consumer subsidies; and

-- eliminating bureaucratic constraints to private enterprise.

We are convinced that once these policies are introduced, and rigorously adhered to over time, the climate for both domestic and foreign private investment will improve significantly.

Taken together, these four assessment themes -- more effective financial catalysts, greater private sector focus, maturation and graduation, and conditionality -- point in the same direction: the strengthening of the multilateral development banks. In the time remaining, I would like to touch briefly on two ADB-specific proposals which we believe would work toward improving the Bank's effectiveness.

First, we support the proposal to create a special budget committee comprising members of the Board of Directors. This would allow member country representatives to influence the preparation of the Bank's Administrative Budget at an earlier stage than is now possible. Second, we also support the proposal to require the Director of the Post Evaluation Office to report directly to the Board instead of to the Bank Management. We have long felt that such lines of responsibility are necessary to avoid compromising auditing functions. We believe these proposals are in keeping with our general desire to see that ADB operations and policies are clearly the responsibility of the Board of Directors, acting under the authority of the Board of Governors.

Finally I would like to say a few words about the proposed General Capital Increase. In our participation in these negotiations, we will be looking to implement many of the recommendations of the assessment. In particular, we believe the ADB should reduce the percentage of paid-in capital incorporated in the subscription increase, since the ADB's credit rating and institutional reputation no longer call for infusions of cost-free funds. We also believe the time has long since passed when it made sense to limit borrowing to a fraction of the convertible callable capital. Borrowing against the full amount of callable capital will permit a greater volume of lending for a given amount of subscriptions. In these times of limited public aid flows, a continuation of this self-imposed limitation is counter-productive.

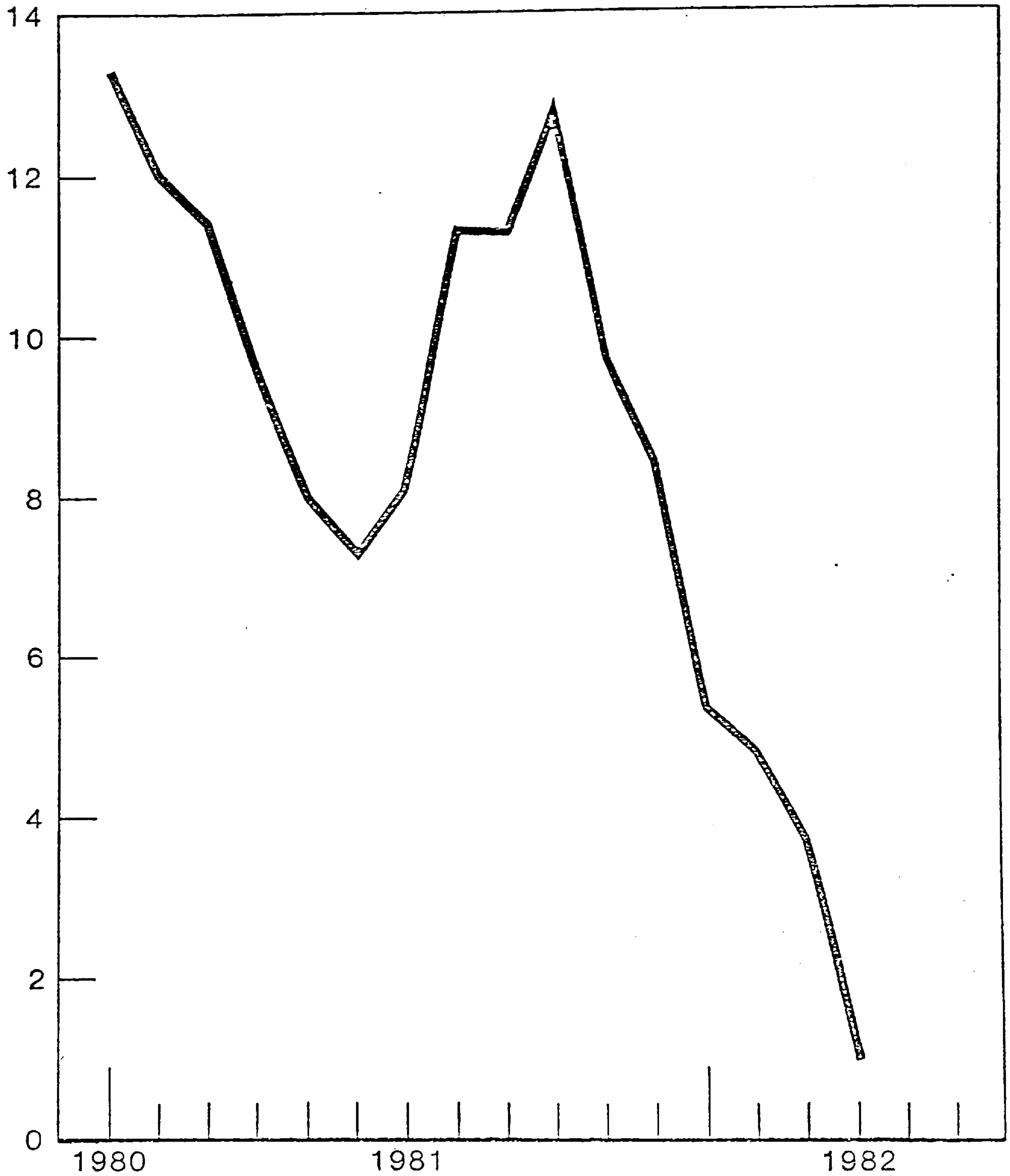
CONCLUSION

Let me conclude by saying that we recognize that the MDBs are multilateral institutions. Clearly no single country should dictate what changes are to be made in them, nor is that our intent. Rather, we seek to build a strong international consensus for our objectives and, in concert with other members and the MDB managements, to move forward in a deliberate, well conceived fashion. We think every country, developed and developing, has an important stake in improving the effectiveness of the Banks. This is a goal we all share.

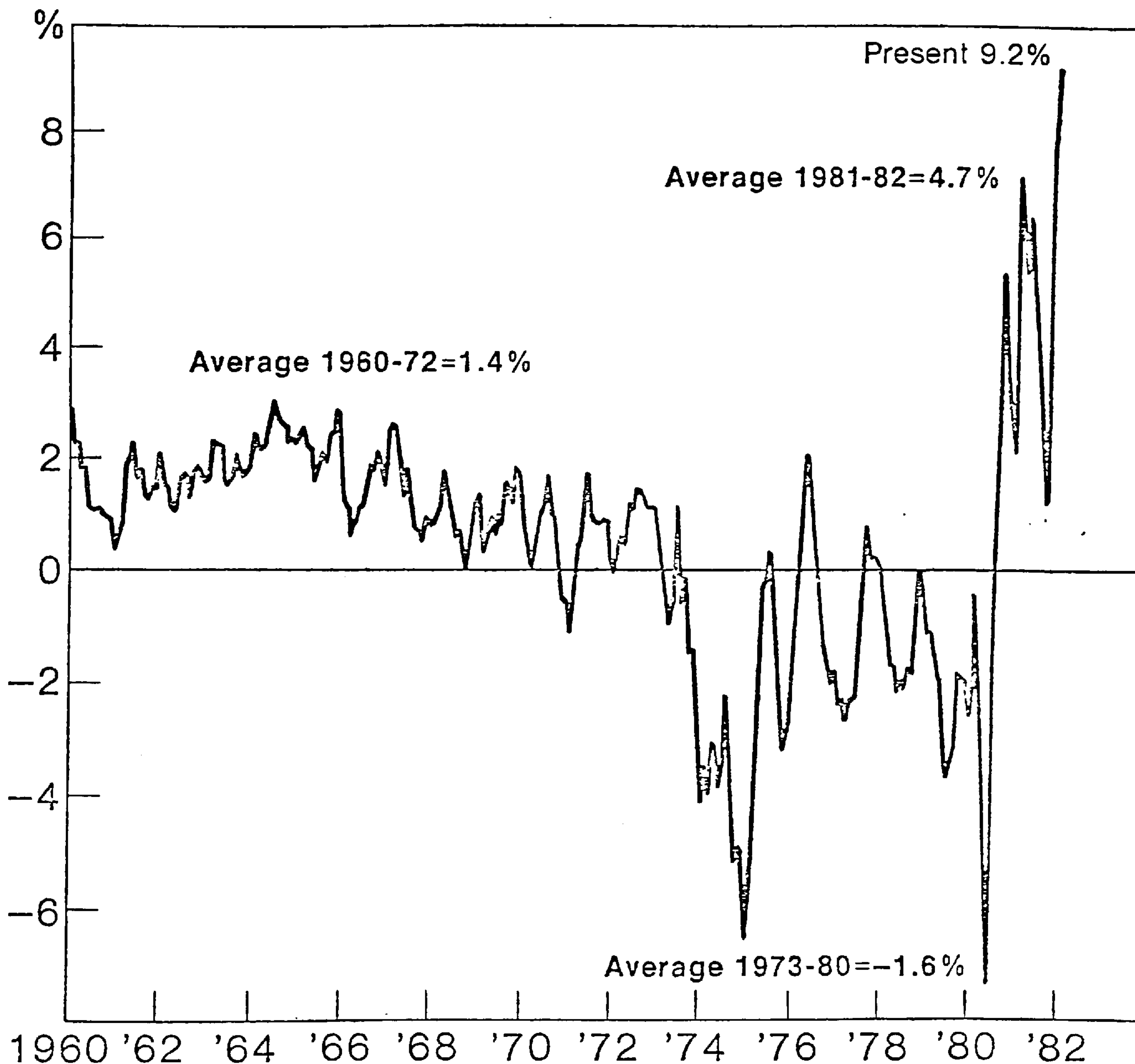
Never before has the failure of the centrally planned economic model of development been more apparent. Never before has the potential for development represented by private market forces been more widely recognized. The ADB has in the past and will continue in the future to help that potential become reality.

Thank you.

###



* At a seasonally adjusted annual rate



*Market yields on six-month Treasury bills (coupon equivalent) less the six-month rate of change in the CPI, at annual rates.

REASURY NEWS

artment of the Treasury • Washington, D.C. • Telephone 566-20

For Release Upon Delivery
Expected at 2:00 p.m. EDT
April 27, 1982

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE
COMMITTEE ON WAYS AND MEANS
U. S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

I am pleased to present the views of the Treasury Department on H.R. 6056, the Technical Corrections Act of 1982. This bill makes technical revisions to the Economic Recovery Tax Act of 1981, the Crude Oil Windfall Profit Tax Act of 1980, and the Installment Sales Revision Act of 1980.

This Committee well understands that technical corrections legislation is essential for all major tax legislation. Many important decisions and compromises are made late in the legislative process, thus requiring the drafting of many complicated statutory provisions in a very short period of time. Thus, there is always a need for clarification and correction of drafting errors and oversights after there has been an opportunity to study the new statutory provisions over a longer time period.

H.R. 6056 is based on a technical review of the Economic Recovery Tax Act, the Crude Oil Windfall Profit Tax Act, and the Installment Sales Revision Act conducted by the staffs of this Committee and the Joint Committee on Taxation with the assistance of Treasury Department staff. Numerous comments from professional groups, individual tax practitioners and other interested parties were considered in this process.

R-747

The bill is intended to make only changes that are technical in nature, that is, changes that are necessary to clarify and conform the language of the Internal Revenue Code to the Congressional intent in enacting these three acts. While it is sometimes difficult to distinguish between amendments that are technical and those that are substantive in nature, a sincere effort has been made in this bill to exclude changes that were not contemplated in the original legislation.

The Treasury Department strongly supports the enactment of H.R. 6056 at an early date. In some instances, prompt enactment of a technical correction is essential for the sound administration of the tax law. For example, under the the Economic Recovery Tax Act (ERTA), an individual is entitled to claim a 1.25 percent income tax credit in 1981 to give effect to the first stage of the 3-year across the board cut in marginal tax rates of individuals. Under the literal terms of ERTA, an individual could be entitled to use the 1.25 percent credit in 1981 to reduce the maximum rate on capital gains below 20 percent and the maximum rate on earned income below 50 percent. This was clearly not intended by Congress, and the 1981 tax return forms were drafted on the assumption that these maximum tax rates will be maintained. Nevertheless, prompt enactment of a technical amendment to the Code is needed to make it clear that aggressive taxpayers will not be permitted to use this inadvertent technical error in the statute to obtain unintended tax reductions.

A similar problem is presented by the fact that ERTA eliminated from the Code the tax preference for accelerated recovery deductions on real estate under the corporate minimum tax. The Treasury Department issued a news release on September 10, 1981, stating that this was an inadvertent drafting error that would be remedied by technical corrections legislation. Prompt enactment of a technical correction is needed to rectify this problem.

The staff of the Joint Committee on Taxation has done an outstanding job in coordinating the technical review of these three acts. The various provisions of the Technical Corrections Act are well summarized in the Joint Committee staff pamphlet.

I would be happy to answer your questions.

FOR IMMEDIATE RELEASE April 27, 1982

DISCONTINUANCE OF OFFERINGS OF RETIREMENT PLAN AND INDIVIDUAL RETIREMENT BONDS BY TREASURY

The Secretary of the Treasury today announced that the Department's offerings of U. S. Retirement Plan Bonds and U. S. Individual Retirement Bonds will be terminated. These bonds have been sold to individuals eligible to participate in the "Keogh" (H.R. 10) and IRA retirement savings programs, respectively. Sales of these bonds in recent months have been negligible because of the availability of a wide range of private Keogh and IRA investments at higher rates. Termination of these Government programs will reduce competition with private offerings of retirement savings plans.

Applications for the purchase of these bonds will not be accepted by the Treasury or Federal Reserve Banks after April 30, 1982. Bonds issued prior to the termination of these offerings will be unaffected by this action and will be governed by the terms and conditions under which they were issued.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. April 27, 1982

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $9,400 million, to be issued May 6, 1982. This offering will result in a paydown for the Treasury of about $375 million, as the maturing bills are outstanding in the amount of $9,780 million, including $933 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,290 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $4,700 million, representing an additional amount of bills dated February 4, 1982, and to mature August 5, 1982 (CUSIP No. 912794 BG 8), currently outstanding in the amount of $5,046 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $4,700 million, representing an additional amount of bills dated November 5, 1981, and to mature November 4, 1982 (CUSIP No. 912794 BA 1), currently outstanding in the amount of $5,016 million, the additional and original bills to be freely interchangeable.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing May 6, 1982. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average prices of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them.

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

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, May 3, 1982. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on May 6, 1982, in cash or other immediately-available funds or in Treasury bills maturing May 6, 1982. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Section 454(b) of the Internal Revenue Code, the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed, or otherwise disposed of. Section 1232(a)(4) provides that any gain on the sale or redemption of these bills that does not exceed the ratable share of the acquisition discount must be included in the Federal income tax return of the owner as ordinary income. The acquisition discount is the excess of the stated redemption price over the taxpayer's basis (cost) for the bill. The ratable share of this discount is determined by multiplying such discount by a fraction, the numerator of which is the number of days the taxpayer held the bill and the denominator of which is the number of days from the day following the taxpayer's date of purchase to the maturity of the bill. If the gain on the sale of a bill exceeds the taxpayer's ratable portion of the acquisition discount, the excess gain is treated as short-term capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY
April 29, 1982

Testimony of

The Honorable Angela M. Buchanan
Treasurer of the United States
Before the
Subcommittee on Consumer Affairs & Coinage
of the
Committee on Banking, Finance and Urban Affairs
April 29, 1982

I am pleased to have the opportunity to present to this Subcommittee the views of the Treasury on two significant bills, H.R. 6058, introduced by Congressman St Germain and H.R. 6158, introduced by Congressman Annunzio. With me this morning is Peter Wallison, the General Counsel of the Treasury.

Before proceeding to a discussion of each bill, I would like to express the Department's appreciation to both Chairman Annunzio and Chairman St Germain for their efforts to develop sound commemorative coin legislation in support of the 1984 Olympic games in Los Angeles. Chairman Annunzio has been tireless in his efforts to structure a coin program which would use most efficiently and effectively the unique facilities of the United States Government. He has been concerned about protecting the American people from the potential abuse, inequities, and improper use of funds that have existed in private commemorative coin programs of the past. He is determined to see that the dignity of the United States coinage system is maintained.

Chairman St Germain, likewise, has spent valuable time away from his other important responsibilities as Chairman of the Banking Committee to assure that Olympic coin legislation is promptly passed. He has been sensitive to the concerns expressed by Chairman Annunzio, and has worked with the General Accounting Office in his efforts to produce a bill that adequately protects the American public. Both Chairman Annunzio and Chairman St Germain should be commended for their efforts to assist the 1984 Olympic games and guarantee our young athletes every opportunity for success as they train for these games.

As a result, we have before us today two Olympic coin bills -- both having merit. Each provides financial support for the 1984 Olympic games and for the training of United States athletes through the facilities of the United States Olympic Committee. Neither bill requires appropriated funds, and neither bill will cost the American taxpayer any money.

Although there are good points unique to both bills, the Treasury Department has concluded that H.R. 6058 -- the 17 coin program sponsored by Chairman St Germain -- is preferable for the following reasons:

(1) In a response to a request of the Chairman of this Subcommittee, I have submitted data which suggests that if the Olympic coin market is similar to the market for special issue coins of the Mint, the three-coin program sponsored by Chairman Annunzio, could raise approximately $87 million for the Olympic Committees through use of the Mint's mailing list. However, there is every reason to believe that the 17 coin program proposed by Chairman St Germain would generate a far greater sum of money. The potential of the larger coin program offered and promoted by a capable private sector marketing group on a worldwide basis should add substantially to the proceeds received by the Olympic Committees. That the larger program will produce greater revenues is only logical, but we suggest that the Committee, during these public hearings, ask the marketing experts to submit an estimate of their projected sales, costs and profits for the record. The actual profit to the Olympics will, of course, depend on the split of the proceeds from the sales between the marketing entity and the Olympic Committees. This is a matter I will address later but is one of considerable importance.

(2) Concerns about excessive profit to the marketing group are, we believe, effectively mitigated by the open bidding procedure found in Chairman St Germain's proposal. If there is in fact the potential for large private profits in this program, there will be no shortage of bidders, and this should assure that the Olympic Committees get the most favorable terms in the sale of the coins.

(3) Although we are confident that the Mint would do well in marketing the coins under Chairman Annunzio's proposal, we are reluctant to hinge the success of the 1984 Los Angeles Olympics on a coin marketing program run by the United States Government. This is particularly the case when a program is proposed that has no exact historical precedents and therefore makes projections based on historical results somewhat more speculative. The sale of any product, even coins, is always subject to rapid changes in the market. This Administration believes that the private sector is always going to be better at responding to these factors in a timely fashion than a government agency.

(4) Chairman St Germain's bill provides for a guaranteed payment of at least $30 million to the Olympics Committtees during the course of the program, and this guarantee should permit the Committees to obtain urgently needed financing during the next few months.

(5) Finally, in testimony before this Committee both the Los Angeles Olympic Organizing Committee and the United States Olympic Committee endorsed H.R. 6058. This was no small factor in our decision. These groups have the greatest stake in the success of the coin program, have looked carefully at the market for Olympic coins for more than a year, and are in the best position to make a sound judgment as to which program would best serve their needs. Since neither bill is objectionable in any sense, we feel it is entirely appropriate to give weight to the views of the private groups most concerned.

Having said all this, I would like to deal with some aspects of H.R. 6058, Chairman St Germain's bill, about which we have a continuing concern:

1. Although the bill permits the Secretary of the Treasury to establish specifications for bidding on the distribution contract for the coins, it does not suggest an appropriate division of the proceeds of coin sales between the private marketing group and the Olympic Committees. This is important because of the bill's requirement for a guarantee of $30 million to the Olympic Committees; obviously, the higher the percentage of sales retained by the marketing group, the more willing they will be to guarantee $30 million in proceeds, and we would like the guidance of Congress as to the minimum acceptable division of

proceeds which Congress would consider appropriate in order to obtain a $30 million guarantee. The Subcommittee should be able to obtain this information from private coin marketers and experts who will testify in the course of these hearings.

2. We must have some assurance that one or more private marketing groups will in fact bid on a 17 coin proposal with a pre-determined minimum division of proceeds and a guarantee of $30 million to the Olympic Committees. Again, this is information the Subcommittee should be able to obtain in the course of its hearings, but even if commitments to bid are made on the record of these hearings there can be no certainty that subsequent economic events will not interfere with that commitment -- even a commitment made in good faith. To meet this contingency, we would suggest that the Secretary of the Treasury be permitted to offer several alternative programs for marketing the coins -- including one in which a smaller number of coins would be marketed without a guarantee or with a reduced guarantee. Of course, the bill would continue to provide that the larger program, with a $30 million guarantee, would be the one pursued if there were at least one acceptable bidder. The most undesirable outcome would be legislation which would require the Secretary to offer a particular program on which no one bids. In that case, we would have to return to Congress for new legislation and the time lost in that process would seriously reduce the chances of success of any Olympic coin program.

3. Finally, we are concerned about the possible application to the bidding process of Federal procurement regulations. While these rules assure fairness in government contracting, they also offer opportunities for litigation which disappointed bidders might use to delay the implementation of the program. The Senate bill contained a specific exemption from procurement regulations for the contracts contemplated in H.R. 6058, but Chairman St Germain's bill is silent on the question of the applicability of these regulations. Even if the Subcommittee believes that procurement regulations will not apply to the distribution agreement for the coins, the issue may be litigated if there is any doubt as to this question -- and the adverse consequences of a substantial delay in the coin program because of litigation would be serious for both the Olympics and the sponsoring Committees. Accordingly, we urge this Subcommittee to insert in the bill a provision which would permit any contracts which are made by the Mint or the Olympic Committee under the bill to be made without compliance with existing procurement regulations, if applicable.

In addition to the above stated concerns there are several minor concerns and technical changes which have been submitted to the Subcommittee for consideration.

That concludes my prepared remarks. I would welcome any questions you or the Subcommittee might have.

Thank you.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

April 28, 1982

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE

TREASURY MAY QUARTERLY FINANCING

The Treasury will raise about $2,900 million of new cash and refund $6,368 million of securities maturing May 15, 1982, by issuing $5,250 million of 3-year notes, and $4,000 million of 10-year notes.

The $6,368 million of maturing securities are those held by the public, including $787 million held, as of today, by Federal Reserve Banks as agents for foreign and international monetary authorities. In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $2,548 million of the maturing securities that may be refunded by issuing additional amounts of new securities. Additional amounts of the new securities may also be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing securities held by them.

Details about each of the new securities are given in the attached "highlights" of the offering and in the official offering circulars.

oOo

Attachment

R-750

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC MAY 1982 FINANCING TO BE ISSUED MAY 17, 1982

April 28, 1982

Amount Offered:		
To the public	$5,250 million	$4,000 million
Description of Security:		
Term and type of security	3-year notes	10-year notes
Series and CUSIP designation	Series M-1985 (CUSIP No. 912827 ND 0)	Series B-1992 (CUSIP No. 912827 NE 8)
Maturity date	May 15, 1985	May 15, 1992
Call date	No provision	No provision
Interest coupon rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	November 15 and May 15	November 15 and May 15
Minimum denomination available	$5,000	$1,000
Terms of Sale:		
Method of sale	Yield Auction	Yield Auction
Accrued interest payable by investor	None	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less	Noncompetitive bid for $1,000,000 or less
Payment by non-institutional investors	Full payment to be submitted with tender	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable	Acceptable
Key Dates:		
Deadline for receipt of tenders	Tuesday, May 4, 1982, by 1:30 p.m., EDST	Wednesday, May 5, 1982, by 1:30 p.m., EDST
Settlement date (final payment due from institutions)		
a) cash or Federal funds	Monday, May 17, 1982	Monday, May 17, 1982
b) readily collectible check	Thursday, May 13, 1982	Thursday, May 13, 1982
Delivery date for coupon securities	Monday, May 24, 1982	Tuesday, May 25, 1982

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release
April 30, 1982

Contact:
Stephen Hayes
566-2041

Address

by

The Honorable Beryl W. Sprinkel

Under Secretary of the Treasury for Monetary Affairs

before the

Eastern Economic Association

Washington, D. C.

It is reported that when Samuel Johnson was asked why he defined "pastern" as the knee of a horse, he replied, "Ignorance, madam, pure ignorance". In looking over some of the public discussion of the Administration's economic policy, citing shortcomings or failures of Reaganomics, monetarism, or supply-side economics, I often wish that some of the critics would be as candid as Mr. Johnson in explaining the source of their views.

I mention this by way of introduction because I believe that what often appear to be major differences in perceptions of national economic conditions and policy options, actually reflect primarily a failure to agree on definitional terms. For example, as one who considers himself a monetarist of sorts, I often have trouble reconciling my views with those that some people attribute to "monetarists." Implementation of sound and sustainable economic policy requires public debate which involves the issues, not exercises in setting up strawmen labelled monetarism, supply-side economics or whatever, in order to knock them down with great flourish and and indignation.

For example, frequent reference is made, both here and abroad, to an alleged inconsistency between our current monetary and fiscal policies. Often this perceived imbalance has been treated as a clash between "monetarism" and "supply-side economics." Now, if you believe, as one commentator has

For Immediate Release
April 30, 1982

Contact:
Stephen Hayes
566-2041

Address

by

The Honorable Beryl W. Sprinkel

Under Secretary of the Treasury for Monetary Affairs

before the

Eastern Economic Association

Washington, D. C.

It is reported that when Samuel Johnson was asked why he defined "pastern" as the knee of a horse, he replied, "Ignorance, madam, pure ignorance". In looking over some of the public discussion of the Administration's economic policy, citing shortcomings or failures of Reaganomics, monetarism, or supply-side economics, I often wish that some of the critics would be as candid as Mr. Johnson in explaining the source of their views.

I mention this by way of introduction because I believe that what often appear to be major differences in perceptions of national economic conditions and policy options, actually reflect primarily a failure to agree on definitional terms. For example, as one who considers himself a monetarist of sorts, I often have trouble reconciling my views with those that some people attribute to "monetarists." Implementation of sound and sustainable economic policy requires public debate which involves the issues, not exercises in setting up strawmen labelled monetarism, supply-side economics or whatever, in order to knock them down with great flourish and and indignation.

For example, frequent reference is made, both here and abroad, to an alleged inconsistency between our current monetary and fiscal policies. Often this perceived imbalance has been treated as a clash between "monetarism" and "supply-side economics." Now, if you believe, as one commentator has

explained, that the Federal Reserve "sits at the monetary faucet that controls the amount of credit," you will see such an imbalance. The supply-side component of the economic recovery program is supposed to encourage saving and thereby expand the supply of credit, while a tight monetary policy is seen as restricting the supply of credit. Such a line of reasoning is evident in the argument that the Federal Reserve should increase the rate of money growth--in the expectation that this will reduce the upward pressure on interest rates which allegedly results from a "tight monetary-easy fiscal" policy mix.

The logic of that argument is fine. The problem is that it proceeds from a totally erroneous presumption about the role of monetary policy--the notion that the Federal Reserve can, or even should try to, control the supply of credit. As economists, we should be not at a loss to explain the obvious confusion of such elementary concepts as money and credit.

Evaluation of national economic policies requires proper care in distinguishing among theory, evidence, forecasts, political pronouncements, value judgments and personal opinions. Such a careful distinction among sources of criticism of any economic program is, in my judgment, a necessary precondition for an intelligent discussion of pertinent issues. Let me start then with an effort to dispel some points of confusion which are evident in many public discussions of the Administration's economic program.

° First of all, I want to take a close look at the issue of the internal consistency of the Reagan program. The general goal of the program is simple and straightforward -- to increase the long-run growth potential of the economy while reducing inflation. That effort requires, however, an attack on many fronts, including efforts to restore aggregate price stability. We adopted an integrated approach, involving some traditional actions, as well as some methods which appear to be quite novel. I must admit that, from the standpoint of economic theory, however, our policy is not all that novel. It is rather a combination of various strands of neo-classical economics. What does the program imply about the assignment of policy instruments?

-- Monetary policy is assigned the role of establishing and maintaining a stable price level.

-- The secular trend of government expenditures is determined by the public's preference for collective consumption (general administration, foreign affairs, defense, and so forth, plus contractual obligations). The level of spending, in any event, is the true measure of the real tax burden on the private sector, and we want to reduce its relative size.

-- The issue of the deficit concerns the choice between funding the predetermined rate of government spending, at the margin, by taxation or by borrowing. Both are methods for transferring resources from the private sector to, or through, the government. The task is to find the mix which minimizes impediments to production, employment, and investment.

-- Consequently, the budget deficit is determined by the level of government expenditures and the degree of its reluctance to borrow, i.e., its time preference.

-- Determination of the level of unemployment is left to the labor market: where, in an open economy it faces a trade-off between higher real wages and higher unemployment.

-- Furthermore, if countercyclical demand management were deemed to be desirable and feasible, varying the level of expenditures over the cycle, especially on public investment, remains an available tool for this purpose. Other than the normal "automatic stabilizer" effect of some government spending, we are not inclined to use fine-tuning methods.

-- The task of maintaining the external balance is assigned to flexible exchange rates.

As long as the budget deficit is not treated as an exogenous constraint, I would be quite confident to contend that the theoretical model underlying the President's program displays perfect internal consistency.

° Let me try now to put some meat on this theoretical skeleton. There are a few distinct sets of issues that need to be addressed. I will dispose of some of them at once, not because they are unimportant, but rather because they would take the discussion too far afield.

-- The role of government in the society: people can argue endlessly about the appropriate level and composition of government expenditures. Suffice it to say that the issue of the number of Tridents which are necessary for an adequate defense posture or the question of the appropriate scope of the food stamp program will not be resolved in this forum.

-- The political environment: it is too easy to forget that the tax and spending bills which are enacted usually differ, sometimes substantially, from the original intent of every administration. Without going into further detail, it is worth noticing

that various ornaments which were tacked onto the Administration's original tax proposals added perhaps $15 billion to this year's budget deficit and much more to projected deficits in future years. I would therefore urge some circumspection in assessing the Administration's ability to shape its economic policy exactly as it desires.

° With these caveats in mind, I'd like to return to some critical points regarding the matter of the consistency of the economic recovery program.

-- Is our fiscal policy too loose? The President thinks so and last night recommended further cuts in spending. His critics apparently agree with him on the question of looseness but they would like to remedy the situation by raising revenues. As I alluded to earlier, these are questions falling as much within the domain of one's political philosophy as within that of economic theory. We have to be honest about the terms of the ongoing discourse. The issue is how much the government should spend and how that spending should be financed. Federal spending rose from slightly more than 20 percent of GNP in 1970 to almost 24 percent in 1981. The President would like to slow the growth of government spending enough to drop this share back to 20 percent or less by 1984. That was the target of a year ago and it remains. That cut of three percentage points would take a major chunk out of the deficits which are currently projected for the out-years.

On the other side of the issue are taxes. As I suggested earlier, the deficit is a complex issue. Obviously, government borrowing absorbs saving and *ceteris paribus* raises the real cost of credit to the private sector. Also, projections of continuing deficits can have a significant negative effect on expectations. Important as these issues are, however, they must be weighed against the cost of raising various taxes. The relevant question is which approach has the smaller detrimental effect in the prospects for stimulating the long-run productive potential of the economy. The Administration believes that the tax system has been a major force in constraining growth of income and economic opportunity. Modest progress has been made in correcting that problem and a lot of thought should be given to the costs of reversing that progress in an effort to balance the budget. Furthermore, the historical record leads us to the conclusion that increases in taxes are more likely to stimulate government spending rather than to reduce the deficit.

-- Is our monetary policy too tight? By choosing criteria creatively one can always show this to be the case. Some critics would point toward high inflation-adjusted short-term interest rates; others -- toward the so-called overvaluation of the dollar relative to other major currencies; others still would invoke the drop in real economic activity; while still another group of critics would look at the rate of growth of total credit rather than a narrow measure of money. Personally, I think that as long as the rate of growth of M1 exceeds the trend rate of growth of total output, the case for monetary policy being too tight cannot be convincingly made. Essentially, the argument comes down to the question of what is the optimal path of disinflation. Even the most severe critics acknowledge a remarkable reduction in the rate of inflation. No one would deny that this disinflation of the economy resulted in considerable discomfort to millions of individuals. Would a somewhat more accommodating monetary policy result, to get fancy, in a smaller net present discounted value of aggregate pain over time? I say "no" and can safely challenge anyone to prove me wrong -- anyone, that is, who objectively assesses the long-term costs and distortion of inflation. Once again I would appeal to both critics and supporters of this Administration's policies to discriminate between points of economic analysis and value judgments.

° Turning to another critical issue, an economic program, even if consistent, must also be credible. I would like, to devote a few minutes to this problem. It is important to distinguish between the credibility of intent versus the credibility of outcome, the former being necessary but, of course, not sufficient for the latter.

Even granting that I am not an unbiased judge of this Administration's determination to stick to its announced economic policies; given our record, I sometimes wonder what it takes to earn one's badge of trustworthiness. As promised, we reduced the growth of hundreds of government spending programs well beyond what was universally considered politically possible before November 4, 1980; we eliminated a great many regulations and restructured others; we ceased to intervene in foreign exchange markets; we haven't resorted to bailouts of shakey enterprises; we didn't buckle under the threat of a potentially crippling strike by a public employee's union; and so on, and so on. Most symptomatic, in a midst of a rather severe recession in a mid-term election year, we have not attempted to pressure the Federal Reserve to expand the money supply more rapidly. Can there still be any doubt regarding this Administration's commitment to its economic policies? I think not. The President's speech last evening confirms our steadfastness.

I do recognize, however, that even among those people who believe in the Reagan Adminstration's ability to persevere in pursuing its policies, many doubt that these policies will yield the promised results. This is what I call the credibility of outcome. The expressed doubts, as we all know, center around the presumed crowding-out phenomenon during the recovery phase. As the story goes, the high real cost of credit will discourage investment and nip the recovery in the bud. In order to stave off this calamity, a reduction in the government borrowing requirement by means of raising taxes is being suggested; and since the Administration is demonstrably resistant to the idea of raising taxes, it is alleged that the economic forecast of resumed sustainable growth is not to be believed.

Both the scenario of continued sluggishness in the economy and the cure proposed by the Administration critics are not self-evident. First, the odds are overwhelming that inflation-adjusted long-term interest rates will come down substantially; their present level simply cannot be sustained at current and prospective inflation rates. Granted, a ceteris paribus reduction in the government deficit would further depress those long-term rates even further. But how relevant is this observation if the reduction is to be achieved by raising taxes and that induces a decline in the private sector's willingness to save? When the ceteris paribus does not hold, is it clear that the proposed cure is better than the alleged disease? Tax and tax and spend and spend is not our hallmark. If the President is correct, and I think that there is no slightest doubt that he is; that higher tax revenues mean more government spending, then one must pause before advocating raising taxes. If government expenditures increase to the full extent of the incremental tax increase, the case against this course of action is clear cut and requires no further elaboration. But even if every additional dollar in tax increases should generate, say, only 50 cents in additional spending, still the government would be preempting a larger share of the nation's resources than under present proposals. I doubt this would stimulate a burst of economic activity.

Furthermore, I do not share the confidence that a reduction in federal deficits by means of raising taxes would translate to any appreciable extent into lower real long-term interest rates. In fact, rescinding the scheduled cut in marginal income taxes would probably have the opposite effect. It is worth pointing out, it seems, that a marginal propensity to save of less than one is a necessary, not a sufficient, condition for reducing the supply of private credit by less than the reduction in the government demand for credit due to higher tax revenues. Should the 10 percent reduction in personal income tax rates scheduled for 1983 be repealed, I would not have to stretch my imagination to conceive that a combination of reduced incentives to work and

have coupled with an incremental increase in government spending would probably lead to higher, not lower, real long-term interest rates.

In addition, maintaining moderate money growth -- "tight money," to some -- is a certain method for improving the condition of credit markets. The combination of inflation, the tax system and regulations on financial markets has encouraged a great deal of private borrowing to purchase real assets. These efforts to protect wealth have been quite evident in the housing boom of the 1970s. Monetary discipline would greatly reduce this drain on credit, encouraging a shift back to holding of financial assets. The result is downward pressure on real rates of interest.

Finally, I cannot suppress the urge to remind our critics that the interest rate, or cost of capital services, is not the only argument in a standard investment function. In case they have forgotten, expected demand for output figures in this functions quite prominently. Increasing people's taxes cannot but depress the expected level of sales and, consequently, depress today's demand for investment goods.

For those who still think there is some kind of conflict with the supply side and monetarist economics, perhaps it is useful to think of the situation this way. Monetary and supply side economics are based on the proposition that private initiative is the source of wealth and higher standards of living. Both theories argue that government policies <u>can</u> be a significant detriment to private initiative and both seek to reduce this perverse government influence.

What has been characterized as the supply side of our economic policy deals with the effect government spending and financing has on the willingness and ability of individuals to take a chance on productive ventures. The monetarist component deals with money in the belief that high and variable inflation is detrimental to work, savings and investment. And that inflation is a monetary phenomenon. The goal of the supply side and monetary elements of our policy is the same: to increase the productive potential of the economy. The only difference is that they focus on different aspects of government behavior.

Reagonomics is carefully designed to rid us of stagflation by limiting money growth and inflation, while increasing incentives to produce more real goods and services. I am convinced it is working!

###

000342

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
May 3, 1982

Contact: Charlie Powers
566-2041

Treasury Department to Recommend Legislative Change Modifying "Original Issue Discount" Bond Computation

The Treasury Department announced today that it will seek to amend the Internal Revenue Code provisions governing the computation of "original issue discount" on bonds and other evidences of indebtedness issued at a discount.

The present rules have the effect of overstating, sometimes substantially, the interest deduction of issuers of original issue discount obligations in the early years of the obligation. The new rule will affect the timing of interest deductions, but not the aggregate amount of deductions for original issue discount.

Under present rules, the discount on an obligation is considered to be earned in equal installments over the life of the bond. Under the new rule, the discount will be considered earned in a geometric progression over the life of the bond, taking into account the compounding of accrued interest.

The proposed change in the law would be effective for bonds and other evidences of indebtedness issued after May 3, 1982, unless the instrument were issued pursuant to a written commitment that was binding on May 3, 1982 and at all times thereafter.

oOo

TREASURY NEWS
Department of the Treasury • Washington, D.C. • Telephone 566-2041

000343
LIBRARY
MAY 5 '82
DEPARTMENT

FOR IMMEDIATE RELEASE

May 3, 1982

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 4,703 million of 13-week bills and for $ 4,701 million of 26-week bills, both to be issued on May 6, 1982, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 5, 1982			26-week bills maturing November 4, 1982		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	96.815a/	12.600%	13.20%	93.555b/	12.748%	13.82%
Low	96.792	12.691%	13.29%	93.534	12.790%	13.86%
Average	96.796	12.675%	13.28%	93.539	12.780%2/	13.85%

a/ Excepting 3 tenders totaling $2,310,000.
b/ Excepting 2 tenders totaling $1,000,000.
Tenders at the low price for the 13-week bills were allotted 69%.
Tenders at the low price for the 26-week bills were allotted 100%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 62,235	$ 56,685	$ 103,985	$ 58,325
New York	11,572,040	3,714,480	11,315,010	3,701,570
Philadelphia	38,555	38,555	25,580	25,580
Cleveland	72,845	54,345	100,060	37,060
Richmond	46,655	41,090	167,605	48,605
Atlanta	63,415	58,580	66,365	52,340
Chicago	980,025	221,405	1,001,190	226,190
St. Louis	39,795	25,795	41,500	24,500
Minneapolis	24,920	19,990	31,505	23,505
Kansas City	52,425	46,195	58,640	50,940
Dallas	24,680	24,680	16,190	16,190
San Francisco	662,660	106,110	793,435	128,435
Treasury	294,895	294,895	307,445	307,445
TOTALS	$13,935,145	$4,702,805	$14,028,510	$ 4,700,685
Type				
Competitive	$11,420,345	$2,388,005	$11,500,285	$ 2,372,460
Noncompetitive	1,143,140	1,143,140	1,013,325	1,013,325
Subtotal, Public	$12,563,485	$3,531,145	$12,513,610	$ 3,385,785
Federal Reserve	1,149,560	949,560	1,150,000	950,000
Foreign Official Institutions	222,100	222,100	364,900	364,900
TOTALS	$13,935,145	$4,702,805	$14,028,510	$ 4,700,685

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 12.759%.

R-75?

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

LIBRARY

MAY 6 '82

TREASURY DEPARTMENT

FOR RELEASE UPON DELIVERY
MAY 4, 1982

STATEMENT OF
THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
May 4, 1982

Mr. Chairman, and Members of the Committee, I welcome this opportunity to appear before you to discuss the Administration's fiscal year 1983 budget proposals for the multilateral development banks.

As you know, last year's foreign assistance appropriations bill was the first enacted in three years. The Administration attached considerable importance to this legislation and we recognize and very much appreciate the constructive role played by you, Mr. Chairman, and by the Members of this Committee, throughout the process leading up to its enactment. We also value highly the frank and informative bipartisan dialogue we established with members and staff of the Congress during the preparation of our recently released report assessing future U.S. participation in the MDBs.

For fiscal year 1983, the Administration proposes $1,537 million in budget authority and $2,361 million under program limitations for subscriptions and contributions to the MDBs.

I would like to assure you that this proposal has been carefully scrutinized to fully reflect the Administration's firm commitment to fiscal responsibility.

For the International Bank for Reconstruction and Development (IBRD), we propose $109,720,549 in budget authority and $1,353,220,096 under program limitations for the second of six installments toward the U.S. share of the 1981 General Capital Increase (GCI).

To subscribe to the U.S. share of the 1981 "companion" increase, we propose $30,158,750 under program limitations. This increase is designed to prevent dilution of member voting power by providing each member with 250 additional votes. The increase has no paid-in component and requires no budget authority.

To complete the U.S. subscription to the 1977 Selective Capital Increase, we propose $16,321,004 in budget authority and $146,897,067 under program limitations.

The total request for the IBRD is $126,041,533 in budget authority and $1,530,275,913 under program limitations.

For the International Development Association (IDA), the Administration is proposing a third installment of our contribution to the sixth replenishment in the amount of $945,000,000. This level of funding is consistent with the ceiling placed on fiscal year 1983 appropriations for IDA in the Omnibus Budget Reconciliation Act of 1981. The proposed level is also a reduction of $945 million from the amount originally envisioned by the Administration in March 1981 and entails a significant reduction in the IDA lending program.

For the Inter-American Development Bank (IDB), we propose $62,423,437 in budget authority for paid-in capital and $828,137,742 under program limitations for callable capital to complete our subscription to the fifth replenishment.

For the Fund for Special Operations (FSO), we propose $175,000,000 for the fourth installment to the current replenishment and $46,677,000 for the unfunded portion of the previous replenishment -- a total of $221,677,000.

For the Asian Development Bank (ADB), we propose $248,097 in budget authority and $2,243,811 under program limitations to complete the U.S. subscription to the most recent capital increase.

For the Asian Development Fund (ADF), we propose $111,250,000 for the fourth installment to the current replenishment and $20,384,478 for the unfunded portion of the previous replenishment, a total of $131,634,478.

For the African Development Fund (AFDF), we propose $50,000,000 for the first of three installments for the new replenishment. The Administration will propose legislation in the coming weeks to authorize a U.S. contribution of $150,000,000 over the three years of this replenishment, which totals a little more than $1 billion. While the proposed U.S. contribution over three years is 20 percent higher than the $125 million negotiated in 1978 for the previous three year replenishment, it is likely to represent a decline in real terms.

The total request represents an increase of $275.3 million in budget authority and $20.7 million under program limitations over the fiscal year 1982 appropriation.

With regard to the increase in MDB funding we are requesting, I would like to stress three points:

-- With the sole exception of the $50 million proposed for the African Development Fund, the FY 1983 request is based on international arrangements negotiated by the previous Administration. President Reagan has stressed the importance of the United States living up to these arrangements. The U.S. contribution to the African Development Fund reflects our commitment to continue to support multilateral efforts to assist in the development of the world's poorest region.

-- The main reason for the increase over the FY 1982 appropriations is the proposed addition of $245 million for IDA -- an increase which is directly traceable to this Administration's decision to reduce contributions in the early part of the sixth replenishment and to make up the amounts later in the replenishment and to appropriations ceilings established by the Congress.

-- In the longer term, the trend of U.S. contributions is clearly down. By FY 1985, when the replenishments will have been largely negotiated by this Administration, we plan total appropriation request levels of about $1.2 billion annually and accompanying amounts for callable capital subscriptions.

> This will entail a significant reduction in real terms in U.S. contributions to new soft loan window replenishments.

Since becoming Secretary, I have met regularly with my counterparts from key industrial countries. Our common long term goal is to build and maintain an international economic system that is open, growing, and characterized by increased efficiency and output. We hope and expect that such a system will encourage the development of democratic, pluralistic and free market societies. The MDBs represent one of the most visible and concrete examples of allied cooperation towards this end -- not just cooperation for cooperation's sake, but because these institutions serve our common interests.

As you know, the Treasury Department has over the past year conducted an assessment designed to establish the necessary framework for future U.S. participation in the MDBs and to outline policy goals to be pursued. This was the most thorough U.S. examination of the institutions since they were established.

The Administration is convinced that continued U.S. participation in the MDBs is justified by a fundamental national interest in a more stable and secure world, which we believe can be best achieved in an open, market-oriented international system. To the extent that the MDBs encourage the participation of developing countries in that international system on a permanent and self-sustaining basis, the MDBs can serve to advance important U.S. economic, strategic and humanitarian interests.

Our conclusions underscore the role the MDBs can play as catalysts in the international economic system and as providers of sound economic advice.

We can see an example of the catalytic role the MDBs can play close to home and in strong support of U.S. foreign policy goals. The World Bank and Inter-American Development Bank chair consultative groups for the Caribbean and Central America, respectively, which will complement the President's Caribbean Basin Initiative. In addition to providing a forum for donor coordination, the MDBs are also expected to provide development assistance in the range of $700 to $800 million annually to the region.

The fundamental decision in our assessment is to continue U.S. leadership in these programs and is based on our conclusion that U.S. foreign policy interests can

be well-served by the MDBs. Cost sharing and financial leveraging mean that the MDBs can provide significant resources at a relatively small direct budgetary cost to the U.S. Government.

In the Caribbean Basin, the MDBs provided $234.3 million to Costa Rica, El Salvador and Jamaica in 1981, while U.S. bilateral economic and military assistance was $165.9 million.

The region adjacent to the Persian Gulf is of critical importance to U.S. interests. In 1981, seven key countries -- Kenya, Pakistan, Mauritius, Seychelles, Somalia, Sudan and Oman -- received $345.4 million from U.S. bilateral programs. The MDBs more than matched that amount with $700.5 million.

The United States maintains basing arrangements in Kenya, Oman, Somalia, Thailand and the Philippines. These five countries accounted for a total of $1,456.6 million in MDB lending in 1981. Our total bilateral program provided $396 million to these same countries.

In seven countries of strategic importance to the United States in Africa -- Botswana, Djibouti, Liberia, Sudan, Tunisia, Zambia and Zimbabwe -- U.S. bilateral economic and military assistance programs provided $247 million in 1981, while the MDBs provided $426.1 million in the same year.

For all 27 countries in the table I have attached to my statement, all U.S. bilateral economic and military assistance programs provided $5.6 billion in 1981. If the MDB graduates, Israel, Oman and Spain, are omitted, the bilateral total is $3.3 billion. The MDBs provided $3.8 billion to these countries.

The point that these statistics establish is that the MDBs -- where the United States provides a fraction of the resources -- are important complements to our bilateral assistance program.

We are also convinced that the MDBs can use their resources more effectively. To this end, U.S. support for the MDBs will be designed to encourage:

- adherence to free and open markets,

- emphasis on the private sector as a vehicle for growth,

- minimal government involvement, and
- assistance to the needy countries who demonstrate an ability to make good use of available resources by adopting appropriate domestic economic policies.

With regard to specific recommendations for improving MDB effectiveness, we will seek three primary goals.

(1) The first is to have MDB lending programs increasingly emphasize attention to market signals and incentives, to private sector development, and to greater financial participation by commercial banks, private investors and other sources of private financing. A critically important goal of the MDBs in the future will be to encourage the private sector to invest its own capital and expertise in sound projects. It is in this role, as a catalytic agent in the enhancement of entrepreneurship, investment capital and production, that the MDBs can make a particularly significant contribution to economic development.

-- The International Finance Corporation knows the private sector and understands how to attract outside investors. We will be working closely with the IFC and other governments to develop additional ways to strengthen the private sector role in programs of the World Bank Group and the regional MDBs.

-- At the request of Venezuela, the IDB is working with the United States and other interested members to fashion a program targeted on the private sector.

-- The Administration has encouraged the MDBs to extend project cofinancing with private financial institutions. We believe there are opportunities for U.S. financial corporations in the cofinancing field, and we are currently examining whether some U.S. regulations may unreasonably limit possibilities in this area.

(2) A second goal is more selectivity and policy conditionality in MDB operations, in effect linking MDB lending to a recipient's pursuit of appropriate micro and macro economic policies. Financing for countries pursuing ineffective policies should be

curtailed, and, if circumstances dictate, terminated. The importance of efficient loan allocations is underscored by the fact that our assessment found indications that past MDB emphasis on lending targets had eroded MDB effectiveness in encouraging sound economic policies.

(3) A third goal is to encourage the MDBs to adopt effective policies to "graduate" countries from the hard loan windows, when these countries have advanced to the point that they can rely fully on private capital flows. Similarly, countries that have achieved a requisite level of creditworthiness should "mature" from the soft loan windows and borrow from the hard loan windows as rapidly as their debt servicing capacity permits.

By pursuing more selectivity in lending within a framework of effective graduation and maturation policies, we can ensure that scarce resources are concentrated on those countries which can best employ them and which are in the greatest need. And we can obtain more cost-effective development financing from the MDBs, while limiting budgetary outlays.

We are convinced that these policies which the United States is pursuing in the MDBs constitute a sound foundation from which economic development can be most efficiently promoted. I am also hopeful that they form an excellent basis for strong bipartisan Congressional support for U.S. participation in these important institutions.

In the past, U.S. relations with the MDBs and other donors have frequently been clouded by uncertainties regarding U.S. implementation of internationally negotiated arrangements. It is important that U.S. efforts to improve the effectiveness of MDB operations not be undermined by such uncertainties. This underscores the importance of consultations between the Executive and Legislative Branches on funding arrangements prior to and during the course of international negotiations, as well as prompt Congressional consideration of the U.S. contributions and subscriptions which follow from such international negotiations.

During the course of this year, the Administration will be negotiating replenishments for the hard and soft loan windows of the Inter-American Development Bank and the Asian Development Bank. We plan to participate fully in these replenishments, but we will insist on realism and restraint in future lending programs. Before this

Administration enters into any understandings there will be thorough consultations with Members of this Committee and other interested Members.

-- The negotiations for an FSO replenishment have recently begun. We would expect to phase down the FSO, in light of the relatively high income levels which exist in Latin America.

-- In replenishment negotiations for the Asian Development Bank and for the Inter-American Development Bank, we are suggesting the elimination of paid-in capital which would reduce the budgetary cost of U.S. participation in the MDBs.

Reduced levels of paid-in capital would have the effect of bringing MDB lending interest rates closer to market levels and of shifting the program cost from non-borrowing shareholders to borrowers, since interest-free paid-in capital would be replaced by borrowing from capital markets to support lending programs.

Our analysis indicates that the impact on the financial integrity of the MDBs would be minimal and would be offset by relatively modest increases in financial charges.

The Congress would retain full control over callable capital subscriptions to the MDBs. No U.S. subscriptions to callable capital could be made without approval by the Congress in authorizing and appropriations legislation. Callable capital subscriptions could only be made to the extent that the Congress provides for program limitations in appropriations acts.

However, other donors have reacted negatively to the idea of eliminating all paid-in capital. Some members of Congress also have reservations, and we are prepared to consider the views of others on this issue.

Some have asked how can we maintain sufficient influence to implement our policies when we are limiting our contributions to the MDBs.

The United States remains the largest contributor to the MDBs, and our leadership position ensures that our views will be given serious consideration. We believe our recommendations are sound and that they reflect not only our national interests, but the common interests of the democratic, largely free market oriented countries,

who provide the major share of resources to these institutions. We are committed to pursuing actively recommendations in our assessment and to continuing to be a reliable financial supporter of the MDBs.

These factors provide solid foundations for anticipating continued strong U.S. influence in these institutions.

At the same time, there will obviously be difficulties in carrying out all our policy objectives because of the multilateral character of the institutions. The views and policy objectives of other countries must clearly be considered. We have, however, generally been encouraged by the international reaction to our report. While there have been significant expressions of disappointment at the proposed reduction in U.S. contributions to the soft loan windows, members and MDB management have emphasized their willingness to work with us to improve MDB effectiveness. We are thus optimistic that we can, over time and with the cooperation of our partners, bring about many of the changes that we have recommended. And, in fact, we can already see some progress, especially in the World Bank.

-- In December, the Congress mandated that the Administration undertake negotiations to reduce the share of IDA credits provided to any given country. The World Bank has firmly indicated to India the need to shift its borrowing from the IDA to the IBRD. We expect that in the World Bank fiscal year 1982, India's traditional 40 percent share of IDA will decline to about 34 percent and forsee a continuing decline in subsequent years.

-- In the Asian Development Bank we have proposed -- and other donors have supported our position -- that relatively creditworthy countries, such as Thailand, Philippines, Indonesia and Papua-New Guinea, cease to borrow from the bank's soft window, the Asian Development Fund. This position has generally been adopted, and the last ADF loans for these countries are being processed this year.

-- In January, the World Bank Executive Directors reviewed the IBRD graduation policy and accepted new, more specific procedures for limiting and eventually phasing out lending to higher income countries. While we welcomed these steps, we would prefer a lower trigger point than the proposed $2,650 per capita income level and are continuing to explore this issue with other Executive Directors and Bank management.

-- The United States has worked hard in the IDB to encourage minimum standards for realistic user charges in power and transport projects. These user charges will be designed to cover operating and capital costs of these services.

CONCLUSION

The fiscal year 1983 budget proposals are a crucial element in our comprehensive long-term program to improve MDB effectiveness over the remainder of the decade. We believe that our request achieves the proper balance among our international and domestic requirements and fully reflects the real budgetary constraints upon the United States Government. At the same time it safeguards our considerable interests in the developing world and in the Banks.

Enactment of the legislation will affirm U.S. determination to exercise responsible economic and political leadership. It will also demonstrate the seriousness of our commitment to work to induce those changes in MDB policies which we have concluded are necessary to improve the effectiveness of these institutions. I hope we can count on your support.

Comparison of Bilateral and MDB Assistance to countries of Importance to the United States 1/
($ million)

	1981 MDB Lending 2/			FY 1981 U.S. Economic Military Assistance 3/
	Hard	Soft	Total	
Africa				
Botswana	17.0	15.8	32.8	16.5
Djibouti	--	--	--	5.2
Kenya	83.0	58.0	141.0	55.3
Liberia	5.0	4.0	9.0	33.0
Mauritius	30.0	--	30.0	4.9
Seychelles	--	8.6	8.6	1.2
Somalia	--	18.8	18.8	67.5
Sudan	--	90.1	90.1	137.2
Tunisia	152.6	--	152.6	--
Zambia	26.0	8.6	34.6	30.1
Zimbabwe	92.0	15.0	107.0	25.0
Asia				
Pakistan	55.0	357.0	412.0	53.0
Philippines	733.5	15.0	748.5	167.2
Thailand	533.3	15.0	548.3	79.7
Latin America				
Costa Rica	40.0	18.2	58.2	8.8
El Salvador	1.0	42.4	43.4	94.9
Jamaica	132.7	--	132.7	62.2
Near East				
Cyprus	14.0	--	14.0	24.0
Jordan	46.0	--	46.0	72.2
Lebanon	--	--	--	24.4
Oman	--	--	--	26.3
Turkey	722.0	--	722.0	451.6
Egypt	89.0	197.6	286.6	1739.6
Israel	--	--	--	2185.0
Europe				
Poland	--	--	--	--
Portugal	120.0	--	120.0	88.8
Spain	--	--	--	133.2
Total	2892.1	864.1	3756.2	5586.8

1/ The countries are those which received an allocation of Economic Support Funds in fiscal year 1982.

2/ The lending levels include commitments of the International Bank for Reconstruction and Development and the International Development Association in World Bank fiscal year 1981, and commitments from the Inter-American Development Bank (and its Fund for Special Operations), the Asian Development Bank and Fund and the African Development Fund during calendar year 1981.

3/ USAID 1982 Congressional Presentation.

U.S. Treasury
February 24, 1982

0 0 0 3 4 4

TREASURY NEWS

LIBRARY
ROOM 5004

Department of the Treasury • Washington, D.C. • Telephone 566-2041

MAY 5 '82
TREASURY DEPARTMENT

FOR RELEASE UPON DELIVERY
May 4, 1982

STATEMENT OF
ROBERT E. POWIS
DEPUTY ASSISTANT SECRETARY FOR ENFORCEMENT
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON CRIME
HOUSE COMMITTEE ON THE JUDICIARY

Mr. Chairman and Members of the Subcommittee:

It is my pleasure to appear before you here today to discuss the current status of the criminal enforcement activities of the Bureau of Alcohol, Tobacco and Firearms (BATF).

Viewed from any perspective, it is submitted that any discussion of the current status of the criminal enforcement activities of BATF must deal with morale. The morale of the criminal enforcement personnel of BATF is very low. They have been through a period of great uncertainty ranging from rumors of RIFs and furloughs to newspaper accounts of the abolishment of the Bureau. The uncertainty continues. The Treasury Department proposed a plan last November to reassign all of the BATF functions to the U.S. Secret Service and U.S. Customs Service. Under this plan the functions of alcohol and tobacco are to go to the Customs Service and the functions of firearms and explosives are to go the the Secret Service. As criminal enforcement personnel became aware of the details of this plan, most of them came to realize that it was good for Federal law enforcement and that it was good

for them. Indeed, it is my reading that the vast majority of the criminal enforcement personnel of BATF enthusiastically supported the reassignment of functions to the Secret Service and looked forward to the merger. Unfortunately, the plan has not been approved by Congress and they now face a new period of uncertainty.

Moreover, there is an imminent financial crisis facing the Bureau. Unless supplemental funding is approved by Congress in the current fiscal year, over 1600 employees will have to be furloughed for more than 90 days commencing on about June 27, 1982. Under these circumstances, it is easy to understand why morale is low and why criminal enforcement personnel feel upset and confused.

Despite all of these problems, criminal enforcement personnel have continued to make excellent criminal cases. Some examples of cases made despite these adverse conditions are set forth as follows:

In February 1982, BATF agents working on a task force with members of the Des Moines, Iowa, Police Department arrested a convicted felon and seized a number of sawed-off shotguns and stolen firearms. The arrest was the result of BATF undercover operations wherein a considerable amount of stolen property, including firearms and Title II weapons, was purchased from six different suspects.

In late February, BATF agents arrested two individuals in Newark, New Jersey, when they delivered 200 silencers to an undercover agent. Twenty-five additional silencers were seized from another suspect in Colorado.

In late February, BATF agents worked with local officials in Bergen County, New Jersey, in an investigation which led to an arrest, after a woman had been killed with a pipe bomb in Fairlawn, New Jersey.

In January 1982, BATF agents arrested an individual in Indiana who is a top firearms trafficker. He was involved with two other defendants who were responsible for a number of burglaries of gun stores in central and southern Indiana involving the theft of over 100 firearms.

Earlier this month BATF and Customs agents arrested two persons as they attempted to enter Mexico with 60 firearms. This arrest was the result of a lengthy BATF investigation in Florida. The suspects are known to have purchased 300 handguns in the last year.

Three weeks ago a man was arrested in St. Louis on two counts of murder arising out of a pipe bomb explosion. The arrest was the result of a joint ATF, St. Louis Police Department Bomb Squad investigation arising from an explosion which killed two people.

During the first week of April, BATF agents in Minnesota worked with state and local authorities in the execution of 10 Federal and 70 State arrest warrants in connection with a sting operation wherein approximately 100 firearms were purchased along with a large quantity of stolen merchandise.

These cases are but a few of the many firearms, explosives and arson cases which continue to be investigated by BATF agents on a daily basis. It is a tribute to the dedication of all the men and women of the Bureau of Alcohol, Tobacco and Firearms that they are able to continue their normal duties during a period of great stress and uncertainty.

The most immediate problem facing BATF today is the need for additional funding in the present fiscal year. The present continuing resolution allocates $115.7 million for the Bureau. This figure, as mentioned previously, will necessitate furloughs of approximately 1600 BATF employees commencing on about June 27 and lasting through the end of FY 1982. The impact of these furloughs would be devastating both on the concerned BATF employees and on the ability of the Bureau to maintain even minimun law enforcement functions. If the furloughs take place there will be no effective enforcement of the arson, explosives and firearms laws for the last three months of this fiscal year and probably well beyond that time. It is anticipated that a large number of employees who are faced with no income for more than 90 days will probably seek and obtain employment elsewhere.

An "urgent supplemental" is presently under consideration for BATF in both the House and the Senate. This supplemental requests funding in two areas for the remainder of this fiscal year:

1. $22.3 million for salaries and expenditures; and

2. $1.479 million for travel and per diem for 45 agents and support personnel for the Vice President's South Florida Task Force.

Approval of this "urgent supplemental" request is critical if there is to be any kind of enforcement of the arson, explosives and firearms statutes or if there is to be proper regulation of the alcohol and tobacco industries.

Mr. Chairman, the plan which the Treasury Department devised for the reassignment of BATF functions to the U.S. Secret Service and the U.S. Customs Service was, and is, a sound plan which contains numerous law enforcement and cost benefits. This Administration plan would, if adopted, provide for a more effective and efficient enforcement of the criminal statutes dealing with arson, explosives and firearms. It would provide adequate resources for these functions both in terms of budget and personnel. It would also provide vitally needed additional resources for the protective mission of the Secret Service. Implementation plans were developed as the result of cooperative work between the Department, the Secret Service, the Customs Service and the Bureau of Alcohol, Tobacco and Firearms. These plans would have enabled us to carry out the reassignment of functions and personnel on April 1, 1982. Had this occurred, I firmly believe that the operating effectiveness of ATF employees who would have been reassigned to the Secret Service would have shown marked immediate improvement because uncertainty and job insecurity would have disappeared. I believe that both morale and productivity would have improved both quickly and significantly. As you know, the plan for the reassignment of functions has not been approved by either the House or Senate Subcommittees on Appropriations. On March 24, 1982, the House Appropriations Subcommittee deferred a decision on the Administration's plan and extended the "freeze" on implementation of the plan until June 30, 1982. On March 25, 1982, the Senate Subcommittee on Treasury, Postal Service and General Government voted to approve an alternative to the Administration's reorganization plan.

The reorganization plan approved by the Subcommittee would direct the following:

- o Arson and explosives jurisdiction would be transferred to the Secret Service together with 317 special agents. An additional 400 special agents would be transferred to the Secret Service for protective use.

- All alcohol, tobacco and firearms functions, both regulatory and criminal, would remain at BATF and the Bureau would be renamed as the Treasury Compliance Agency (TCA).

This plan was approved by the Subcommittee.

The Administration is not able to support the Senate Subcommittee's alternative plan because it would reduce the number of special agents presently engaged in the criminal enforcement of the firearms statutes by almost 50 percent. This would seriously undermine the Federal effort to enforce those statutes which deal with Title II weapons (automatic weapons, silencers and other destructive devices); felons in possession of firearms (Titles I and VII of the Gun Control Act); and the illegal diversion of firearms from legitimate channels to violent criminals who use weapons in carrying out murders, roberies, rapes, burglaries and narcotic violations (Title I). The Senate Subcommittee proposal would also create practical problems of trying to determine which agents would go to the Secret Service and which agents would remain behind in the Treasury Compliance Agency. RIF registers would have to be set up to make this determination. It is possible that the Secret Service would end up with a disproportionate number of the more senior agents presently assigned to the Bureau of Alcohol, Tobacco and Firearms, at a time when the Service is in need of younger agents.

Senator Laxalt offered an alternative plan which would create a Treasury Compliance Agency for the regulatory aspects of alcohol, tobacco and firearms. Senator Laxalt's plan would transfer approximately 1200 agents to the Secret Service with appropriate support personnel for the criminal enforcement of the firearms, arson and explosives statutes. This plan is acceptable to the Administration because it provides adequate resources for the criminal enforcement of the firearms, explosives and arson statutes by the Secret Service.

In conclusion Mr. Chairman, let me again state that the most important and vital need for the BATF at this time is to obtain funding contained in the "urgent supplemental" request. This funding will allow BATF to carry out its criminal enforcement responsibilities with some degree of effectiveness. I do not know what the future holds for the BATF beyond the funding level contained in the "urgent supplemental." I must point out that it will be very difficult to rebuild the Bureau to its prior level of criminal enforcement effectiveness if it is maintained as it presently exists.

The Department believes that the best resolution of BATF's dilemma would that the criminal enforcement functions of firearms, explosives and arson be reassigned to the Secret Service, together with sufficient personnel.

At this time I would be pleased to attempt to answer any questions which you or members of the Subcommittee might have.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. May 4, 1982

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 9,400 million, to be issued May 13, 1982. This offering will result in a paydown for the Treasury of about $375 million, as the maturing bills are outstanding in the amount of $ 9,781 million, including $1,093 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,168 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $4,700 million, representing an additional amount of bills dated August 13, 1981, and to mature August 12, 1982 (CUSIP No. 912794 AX 2), currently outstanding in the amount of $9,569 million, the additional and original bills to be freely interchangeable.

183-day bills for approximately $4,700 million, to be dated May 13, 1982, and to mature November 12, 1982 (CUSIP No. 912794 BS 2).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing May 13, 1982. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average prices of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them.

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

R-756

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, May 10, 1982. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on May 13, 1982, in cash or other immediately-available funds or in Treasury bills maturing May 13, 1982. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Section 454(b) of the Internal Revenue Code, the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed, or otherwise disposed of. Section 1232(a)(4) provides that any gain on the sale or redemption of these bills that does not exceed the ratable share of the acquisition discount must be included in the Federal income tax return of the owner as ordinary income. The acquisition discount is the excess of the stated redemption price over the taxpayer's basis (cost) for the bill. The ratable share of this discount is determined by multiplying such discount by a fraction, the numerator of which is the number of days the taxpayer held the bill and the denominator of which is the number of days from the day following the taxpayer's date of purchase to the maturity of the bill. If the gain on the sale of a bill exceeds the taxpayer's ratable portion of the acquisition discount, the excess gain is treated as short-term capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

000483

TREASURY NEWS

LIBRARY

Department of the Treasury • Washington, D.C. • Telephone 566-2041

MAY 6 '82

TREASURY DEPARTMENT

FOR RELEASE UPON DELIVERY
EXPECTED AT 1:30 P.M., EDT
MONDAY, MAY 3, 1982

STATEMENT BY THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE FOR TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss the Department of the Treasury's operating budget request for fiscal year 1983.

As this Subcommittee is well aware, the history of this Department is unique. As the second oldest department in the federal government, Treasury has throughout the last 193 years been responsible for a wide range of important government functions.

Today is no different. The current missions and activities of the Treasury Department represent what are truly basic functions of our federal government. We collect federal taxes and administer the Nation's tax laws. We manage the fiscal affairs of the government, including paying its bills and financing the public debt. We manufacture the Nation's currency and help regulate many financial institutions. We process passengers and cargo coming into the country, enforcing import and export laws in over 300 ports of entry. Our law enforcement functions include the protection of the President and Vice President as well as other dignitaries. And, we are a major policy advisor to the President on monetary, fiscal, and economic policy, both domestic and international.

In order to carry out these activities in fiscal year 1983, we are requesting a budget of $4.3 billion and 113,592 average positions. This request represents an increase of $207 million and 515 average positions above comparable fiscal year 1982 levels, which include pending supplemental requests totalling $365 million.

This overall increase reflects a growing workload, inflated costs, and two major program initiatives -- the strengthening of the audit and collection functions of the Internal Revenue Service and the modernizing of key Treasury operations.

In order to finance these increases, and to accomplish our overall goal of reducing government costs, we are also proposing offsetting savings of $166 million and 4,300 average positions. Indeed, a major theme of this budget is to do more with less. By cutting back on less essential activities, by reducing the size of the Treasury workforce wherever possible, and by making needed economies and efficiencies, we will create a leaner Department that is better equipped to carry out its major functions.

Our budget anticipates a large, and in many areas growing, workload. For example:

-- The Department will process over 144.6 million tax returns in fiscal year 1983, an increase of over 2 percent from the previous year.

-- We expect to examine 1.7 million tax returns, 8 percent above the level planned for 1982.

-- We anticipate that 332 million persons will arrive at U.S. borders -- 2.9 percent more than in 1982 -- and that we will process 5.1 million formal entries -- almost 7 percent more than in 1982.

-- Treasury will issue over 99 million savings-type securities, and retire 164 million; this represents increases of 28 percent and 9 percent, respectively.

-- Treasury will print 4.2 billion pieces of currency and 27.5 billion postage stamps. We will manufacture 17.6 billion coins.

-- We will issue 737.4 million payments, an increase of 11.5 million over 1982.

I would like to highlight the two major initiatives in the budget.

First, we propose to strengthen the enforcement capabilities of the Internal Revenue Service. Neither we nor the taxpayer should tolerate a situation where there is over $20 billion in outstanding tax debt owed the government and where $95 billion in income taxes goes uncollected each year. Our budget includes $154 million and an additional 5,225 positions to enhance the collection and audit activities of IRS. This initiative will produce additional net revenues of $1.9 billion in FY 1983 alone, with total additional revenue expected to be approximately $7 billion by FY 1985.

Our second initiative is to improve and to modernize major Treasury systems and equipment. We simply cannot continue to neglect the need to modernize. Throughout Treasury, antiquated equipment imposes severe operational problems, requires large numbers of unnecessary staff, and costs the government large sums in direct charges for maintenance. It is tempting to put off these investments for better budgetary times, but such a course of action would be irresponsible. We cannot manage by deferred maintenance.

So, as part of this initiative our budget includes $75 million to introduce new data processing software and hardware in IRS in order to take advantage of current technology. We will speed collection of delinquent taxes by adopting a new processing system that will greatly improve existing productivity levels. We will also enhance the entry and retrieval of information into the computerized tax system and begin to replace the major computer equipment used in processing returns and maintaining tax accounts. Modernization within IRS is essential to effective tax administration during the 1980's.

We are also committed to modernization and long-term improvements in the government's fiscal operations, including improvements in cash management. Here, too, outdated systems and processes impose severe costs. As part of our modernization and cash management program, the budget includes increases of $16.4 million for the Bureau of Government Financial Operations. We propose to convert estimated tax payments to the Federal tax deposit system by requiring individual taxpayers to make their payments to authorized depositaries as opposed to the Internal Revenue Service. This change will speed the flow of receipts into the Treasury. We will also work with several other Departments to implement other cash management proposals. We expect net savings of over $100 million by FY 1984 in reduced interest costs to the government from this investment.

As I indicated, to finance these initiatives and to carry out our overall objective of reducing the costs of government, we will cut back on less essential activities, reduce the size of the Treasury workforce, and make needed economies and efficiencies.

Our major personnel reductions are in the areas of the U.S. Customs Service and IRS taxpayer services. While we have made difficult choices and trade-offs, we believe that these reductions can be accomplished without sacrificing essential services.

For the U.S. Customs Service, inspection processes need to be more selective and less cumbersome, with a resultant savings in personnel. In the area of IRS taxpayer services, changes in procedures and additional automation will provide essential account assistance after a return is filed, while decreasing assistance in returns preparation.

Treasury witnesses have already provided detailed statements concerning their organizations. In terms of the major overall changes to the budget, we are seeking:

- $218 million for program enhancements, related primarily to our IRS initiatives;
- $57 million for increased workload related primarily to processing tax returns and public debt securities;
- $167 million for price increases in such areas as communications, office space, travel, and utilities;
- an offset of $166 million in program reductions; these include productivity savings and staffing reductions throughout Treasury, particularly in IRS taxpayer services and the U.S. Customs Service; and
- an offset of $69 million reflecting our proposal to have the Social Security Trust Funds reimburse the Bureau of Government Financial Operations directly for the mailing and processing of social security checks.

Appropriations Language Proposals

Our budget also includes several recommendations concerning appropriations language.

We are requesting that the restrictive language regarding inspector overtime in the U.S. Customs Service be deleted. We understand the concerns of the Appropriations Committees about previous abuses in that area. We have taken steps to correct these abuses. However, we are required to use limited resources for reporting and administrative burdens resulting from this language. Clear guidelines for the controlled assignment of necessary overtime exist, and we therefore feel that the restrictive language should be removed.

We are also requesting authority to permit up to 5 percent of any appropriation to be transferred to another appropriation, as well as transfer authority between the Customs Service and the Secret Service to permit an orderly transfer of BATF functions. This transfer authority will enable us to respond to changes in workload or other emergencies in an orderly fashion during the year.

Under our general provisions we are seeking to remove a prohibition against the use of time clocks in the District of Columbia. The Bureau of Engraving and Printing is forced to operate under this requirement, set by an 1899 statute, at considerable costs. If this requirement were removed, we would achieve savings of 55 personnel and $1 million in fiscal year 1983.

Our fiscal year 1983 budget also includes language to enable the Social Security Trust Funds to reimburse the Bureau of Government Financial Operations directly for the cost of issuing and processing social security payments. Currently, the Social Security Trust Funds reimburse the General Fund of the Treasury.

Fiscal Year 1982 Supplementals

Our budget also includes requests totalling $365 million in supplemental funding for fiscal year 1982.

For the Bureau of Government Financial Operations, we are requesting supplementals of $81.8 million. The need for these funds is critical, because under the level of $147.7 million, as provided in the Continuing Resolution, we will have to suspend Bureau operations by June. At that time we will be forced to halt the processing and mailing of social security checks as well as all other government checks, including pay checks. We are therefore urging quick Congressional action on this request, and are encouraged that the Appropriations Committee has included this item in its urgent supplemental bill. Of the total of $81.8 million, $68.9 million is for the mailing and processing of social security checks, $10.6 million is for mail costs associated with government checks other than social security, $2.1 million will cover costs associated with the transfer of Iranian assets, and $200,000 is for postal service savings system claims.

Our budget includes supplemental funding of $23.8 million for the activities and functions of the Bureau of Alcohol, Tobacco, and Firearms. Of that total we need an additional $22.3 million to carry out basic law enforcement and revenue protection functions. In addition, $1.5 million is requested to support activities related to the work of the President's South Florida Task Force.

For the U.S. Customs Service we are requesting $6.9 million for its role in the support of the President's South Florida Task Force. This Task Force was established to deal with the massive immigration, rampant crime, and epidemic drug smuggling in that area.

For the Internal Revenue Service, our budget includes a supplemental of $123.5 million. We are seeking $38.5 million to begin hiring for the enhanced collection and audit effort that I described earlier as well as to reduce legal and delinquent tax backlogs, and $85 million for mandated cost increases resulting from the postage and communications increases and a new requirement imposed on the IRS to fund unemployment compensation costs.

Finally, for the October 1981 pay increase and the lifting of the pay cap effective last January, our supplemental request

includes $129 million. This request, which involves all Treasury organizations, was submitted to the Congress recently.

Mr. Chairman, that, in brief, represents the major proposals of the Treasury Department. I would like to insert for the record the "Summary of the 1983 Budget" as well as a table summarizing our request by account. I shall be happy to answer any questions that the Subcommittee may have.

DEPARTMENT OF THE TREASURY
1983 President's Budget

Office of the Secretary:

- FY 1983 request of $59.8 million and 1,151 average positions, +$4.0 million and -15 average positions as compared to FY 1982.

- Budget presentation reflects merger of Salaries and Expenses and International Affairs appropriations.

Office of Revenue Sharing:

- FY 1983 request of $6.6 million and 131 average positions, +$.3 million and -12 average positions as compared to FY 1982.

Federal Law Enforcement Training Center:

- FY 1983 request of $12.9 million and 244 average positions, +$.6 million and -4 average positions as compared to FY 1982.

- Provides funding for the majority of basic training requirements. Remaining unfunded basic training and all advanced training requirements will be required to be funded by participating agencies to the extent possible.

Bureau of Government Financial Operations:

- FY 1983 request of $183.3 million and 1,840 average positions, -$48.6 million and -720 average positions as compared to FY 1982.

- BGFO's 1983 request assumes reimbursement for the bureau's Social Security-related activities rather than the use of appropriated funds, as was the case in FY 1982.

- The 1983 request includes $13.1 million for conversion of Estimated Tax Payments to the Federal Tax Deposit system; the resulting net savings are estimated at $44 million in FY 1983 and $89 million in FY 1984.

- Otherwise, the theme of the 1983 budget is modernization -- of cash management practices Government-wide and of the bureau's various operations.

U.S. Customs Service:

°° FY 1983 request of $530.5 million and 12,581 average positions, +$3.9 million and -979 average positions as compared to FY 1982.

°° Net change of +$3.9 million and -979 average positions reflects the following:

* Annualization of ATF transfer of $15.3 million and 359 average positions

* Price increases of $25.5 million

* Reductions of -$44.7 million and -1,338 average positions.

°° President's request reflects functional transfer of alcohol and tobacco functions from the Bureau of Alcohol, Tobacco and Firearms to the U.S. Customs Service, effective April 1, 1982.

°° Program reductions will be accomplished through attrition and reductions-in-force.

* Expect to minimize the impact of staffing reductions through streamlining the inspectional process wherever possible and through emphasis on improved automated systems.

* Reduction-in-force of approximately 1,500 employees is anticipated.

Bureau of the Mint:

°° FY 1983 request of $50.2 million and 1,266 average positions for the Salaries and Expenses appropriation, +$2.4 million and -94 average positions as compared to FY 1982.

°° Provides funding for the production of 17.6 billion coins in FY 1983, and through depletion of inventories, the shipment of 18.8 billion coins in FY 1983.

°° Funds requested for FY 1983 will allow for plans to close the New York Assay Office Refinery.

°° FY 1983 request of $5.2 million for the Expansion and Improvement Appropriation, +$1.2 million as compared to FY 1982. Provides for continuing improvements to existing Mint coining facilities.

Administering the Public Debt:

- °° FY 1983 request of $210.0 million and 2,460 average positions includes $195.2 million and 2,183 average positions for the Bureau of the Public Debt and $14.8 million and 277 average positions for the U.S. Savings Bonds Division.

- °° FY 1983 request represents an increase of +$31.8 million and a decrease of -137 average positions. An increase of $33.2 million and -67 average positions are in the Bureau of the Public Debt. An increase of $.2 million and -70 average positions are in the Savings Bonds Division.

- °° The Bureau of the Public Debt increase includes:

  - * +$29.8 million for increased workload volumes in Savings Bonds sales and redemptions, and

  - * +$3.4 million for increased workload in the marketable securities area.

  - * Personnel reductions in both of the above activities are the result of increasing automation and efficiency. Related dollar savings of -$1.9 million have been included in the above numbers.

- °° At this time, the Bureau's request assumes no change in the operation of the marketable securities activity.

- °° The Savings Bonds Division's increase of $.2 million is the result of inflationary cost increases offset by reductions of $1.3 million related to the decrease of 70 average positions.

Internal Revenue Service:

- °° FY 1983 request is $2.917 billion and 88,673 average positions, $237 million and 3,310 average positions above FY 1982.

- °° Net change of $237 million above FY 1982 reflects the following:

  - * $154 million and 5,225 positions for an initiative to collect delinquent taxes and examine deficient returns.

* Increases for this initiative are for the following programs:

  -- Collection of delinquent accounts ... 3,000 positions

  -- Identification of nonfilers 1,000

  -- Examination of deficient returns 1,000

  -- Appeals 225

  Totals 5,225 positions

* $75.3 million and 297 average positions for systems modernizations, primarily in the collection program. The program proposes to modernize the current system for collecting delinquent taxes, freeing up staff years through increased efficiencies and productivity.

* Reduction of $50.4 million and 1,691 average positions in Taxpayer Service.

  -- Reduction will be applied to general tax law telephone and walk-in assistance. The program will concentrate on assisting taxpayers with question. or problems related to their accounts after the return is filed.

  -- This will represent assistance with information that can be provided only by the IRS as opposed to private sector sources of taxpayer assistance.

* $35.2 million and 971 positions for workload related increases.

* $22.9 million for mandatory cost increases in FY 1983. The major components of this increase are:

U.S. Secret Service:

°° FY 1983 request of $294.4 million and 5,377 average positions, +$65.5 million and 865 average positions as compared to FY 1982.

°° The increased funding requirements are primarily for the following items:

  * $49.5 million to annualize the BATF transfer proposed in FY 1982 (firearms and explosives activities).

  * $11.6 million to fund inflationary cost items (i.e., GSA rental costs, FTS and other communications costs, increased airfare, etc.)

* $1.0 million to fully fund the October 1981 pay raise.

* $4.5 million for the Candidate and Nominee program. This includes training and related equipment requirements.

* $3.8 million to convert approximately one-half of their existing communications equipment to voice privacy.

* $2.2 million to provide technical support to the Service's investigative and protective functions, including $1.5 million for vehicle replacement schedule.

* $7.1 million in program reductions. This includes $2.5 million to reimburse state and local governments for their assistance to the Service in protective activities. Other savings will be achieved through reducing permanent changes of station moves, reducing equipment purchases, and restricting overtime.

•• President's request reflects a functional transfer of firearms and explosives functions from the Bureau of Alcohol, Tobacco and Firearms to the U.S. Secret Service, effective April 1, 1982.

April 26, 1982 (J7)

THE DEPARTMENT OF THE TREASURY
Summary of Budget Estimates for FY 1983
(Dollars in Thousands)

Treasury Subcommittee	FY 1981 Appropriation		FY 1982 Proposed Level		FY 1983 Estimate		Total Changes		Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
Office of the Secretary	1,233	58,670	1,166	55,729	1,151	59,752	-15	4,023	---	---	-15	4,023
Fed. Law Enforce. Trng. Center	256	13,648	248	12,268	244	12,913	-4	645	---	---	-4	645
Bureau of Gov't Financial Oper:												
Salaries and Expenses	2,583	199,304	2,560	231,865	1,840	183,267	-720	-48,600	92	16,392	-812	-64,992
Payment of the Guam, V.I. and American Samoa	---	2,173	---	---	---	---	---	---	---	---	---	---
Postal Savings System Liquidation	---	---	---	200	---	---	---	-200	---	---	---	-200
Bureau of Alcohol, Tobacco and Firearms	3,637	149,850	1,711	83,014	---	---	-1,711	-83,014	---	---	-1,711	-83,014
U.S. Customs Service	13,316	498,468	13,560	534,414	12,581	530,524	-979	-3,890	---	---	-979	-3,890
Bureau of the Mint:												
Salaries and Expenses	1,545	61,446	1,360	47,489	1,266	50,165	-94	2,376	---	1,384	-94	992
Expan. & Improve. (Prop. Leg.)	---	---	---	3,969	---	5,200	---	1,231	---	1,231	---	---
Bureau of the Public Debt	2,592	191,939	2,597	178,234	2,460	210,045	-137	31,811	---	20,765	-137	11,046
Internal Revenue Service:												
Salaries and Expenses	4,523	164,485	3,922	164,376	3,918	171,102	-4	6,726	118	8,334	-122	-1,608
Taxpayer Ser. & Ret. Proc.	32,810	837,637	30,824	916,340	29,286	957,679	-1,538	41,339	351	75,300	-1,889	-33,961
Examinations & Appeals	29,300	903,115	29,715	952,222	30,910	1,016,634	1,195	64,412	1,574	45,589	-379	18,323
Investigations & Collection	19,591	574,506	20,902	647,349	24,559	771,744	3,657	124,395	4,450	135,315	-793	10,920
Total, IRS	86,224	2,479,743	85,363	2,680,287	88,673	2,917,159	3,310	236,872	6,493	236,872	-3,183	-27,666
Payment Where Energy Credit Exceeds Liability for Tax	---	900	---	440	---	300	---	-140	---	---	---	-140
U.S. Secret Service	3,558	178,339	4,512	228,988	5,377	294,407	865	65,479	---	10,480	865	54,999
Subtotal, Treasury Subcom.	114,944	3,834,480	113,077	4,056,947	113,592	4,263,732	515	206,785	6,585	314,790	-6,070	-108,005
HUD-Independent Agencies:												
Office of Revenue Sharing	152	6,700	143	6,329	131	6,612	-12	283	---	---	-12	283
NYC Seasonal Loan Guar. Prog.	---	903	---	822	---	310	---	-512	---	---	---	-512
Subtotal, HUD-Indep. Agen.	152	7,603	143	7,151	131	6,922	-12	-229	---	---	-12	-229
State, Judiciary & Commerce												
Chrysler Corp. Loan Guar. Prog.	10	1,349	14	1,365	13	1,211	-1	-154	---	---	-1	-154
Proposed Legislation Department of Education Accounts Transferred to Treasury*												
Impact Aid	114	639,088	102	443,624	97	287,760	-5	-155,864	---	---	-5	-155,864
Higher Ed. Fac. Loans & Ins.	---	27,656	---	26,850	---	45,143	---	18,293	---	---	---	18,293
Subtotal, Dept. of Ed. Accts.	114	666,744	102	470,474	97	332,903	-5	-137,571	---	---	-5	-137,571
Total, Appro. Operating Acct.	115,220	4,510,176	113,336	4,535,937	113,833	4,604,768	497	68,831	6,585	314,790	-6,098	-245,95
Permanent Authorization, Claims Trust Acct., Gen. Rev. Sharing, & Proposed Leg. (See Attached)	8,789	88,170,647	8,873	105,899,473	9,182	120,351,950	309	14,452,477	---	---	309	14,452,47
GRAND TOTAL, Treasury	124,009	92,680,823	122,209	110,435,410	123,015	124,956,718	806	14,521,308	6,585	314,790	-5,779	14,206,51

* Transferred from Department of Education in FY 1983 under proposed legislation; the FY 1981 and 1982 levels are shown for comparison purposes.

[illegible] April 20, 1982

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

EMBARGOED FOR RELEASE UPON DELIVERY
Expected at 10:00 A.M., EST
Wednesday, May 5, 1982

TESTIMONY OF THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS
MAY 5, 1982

Mr. Chairman and Members of the Committee:

I am here today at your request to discuss the challenges for dealing with the Federal budget for fiscal 1983 and beyond and the tax policies which should accompany that budget. Let me set the stage for our discussion by describing the interrelationship between Federal taxes and the economy.

The economy continues in the grip of one of the longest recessions since the decade of the 1930's. While according to the conventional measures, we are now experiencing the second recession in two years, there has in fact been no sustained growth in real GNP since early 1979. This is clearly seen in the attached Chart 1. The past three and a quarter years have been a period of protracted economic stagnation.

The causes of the problem are years of excessive money growth resulting in rising inflation and interest rates, continuously escalating tax rates, and increasing diversion of our production capability to meet the demands of ever expanding Federal spending.

In spite of the continued slide in the first quarter of 1982, there are some hopeful signs. Excess inventories are being drawn down at a rapid rate. This is typical of the last stages of a recession. Retail sales are rising. Housing starts are up slightly for the fifth month in a row although still at a deplorable level. Durable goods orders

are no longer falling but have leveled off. And, very important for the financial well-being of all Americans, whether of working age or retirees, inflation continues to fall.

More importantly, we have in place a sound long-run tax system. If we assure business and individual taxpayers of our determination to secure that tax system in place, it will help bring an early end to the current recession, and it will provide the tax climate for strong, continuing growth of income, savings, investment and employment. That tax system, with a healthy economy, will generate as much revenue as government should reasonably be allowed to spend.

The severity and duration of the recession has required substantial revisions in the estimates of the Federal budget for the next several fiscal years. We all should have learned by now that projecting budget results is an extremely uncertain business, and we should, therefore, entertain serious reservations about the current estimates of future budget totals. Notwithstanding, it is clear that the net budget results for the next several years almost certainly will be much larger deficits than we had earlier foreseen.

The deficits projected for fiscal years 1983, 1984, and 1985 without further government action --- as much as $182 billion, $216 billion, and $235 billion, respectively, according to the CBO's current estimates --- must be seen as measures of disarray in our fiscal affairs, not merely as the untoward consequence of unsatisfactory performance of the economy. There has been and continues to be dispute over the economic impact of these deficits. Whether you believe that these deficits, in and of themselves, can or will prevent the kind of robust and extended recovery all of us seek, you can't deny that these deficits reflect failure to match the Federal Government's demands to its revenue resources. None of us, in the Congress or in the Administration, would deliberately plan deficits of these magnitudes. We have no choice but to move now to put our fiscal house in order.

Our basic and urgent concern with the Federal Government's finances must be to insure that our fiscal plan for the next several years will not impede the economy's recovery from the prolonged recession of the last three years nor imperil its sustained expansion. For the long run, reducing and eliminating deficits must be the fiscal reflection of a strong and growing economy.

Recovery and expansion will be set back if the fiscal plan we adopt allows the Federal Government to preempt too large a share of the economy's production resources through its spending programs. Recovery and expansion will also be threatened if Federal deficits claim too large an amount of

the economy's gross private saving. The greater the proportion of gross private saving which must be allocated to financing the Federal deficit, the less the amount of saving which will be left to the private sector.

We have learned, or at least we should have learned, that we can't consume our way into sustained economic progress. Growth in the economy --- in employment, productivity, output, and incomes --- depends critically on increasing the amount and improving the quality of the capital with which our labor force is employed. If we have to devote significant amounts of our saving to financing government deficits instead of capital formation, we must suffer the consequences in less certain recovery and growth.

The principal way to reduce government deficits, the only way to do so without imperiling the saving which must finance both deficits and capital formation, is by cutting back the growth in government outlays. Any changes in the economic recovery program which reduce real growth will tend to worsen the budget picture. Changes which reduce individual or business saving by as much as or more than the deficit will only worsen the situation in the credit markets. We must, therefore, bend every effort to reducing spending growth. If we must add revenues to make up any shortfall which less spending restraints may leave us, we must do so in ways which will least impair incentives for saving, investment, and personal effort.

The measures we take to reduce these deficits should be closely guided by certain basic criteria. One of these must be that we will not be panicked into hastily designed spending changes, or revenue increases which would have the effect of discarding the policy objectives set last year. The fiscal measures which were enacted in 1981 had two major aims. One was to reduce Federal spending and its preemption of the economy's production capability; the other was to moderate the adverse effects of our tax system on incentives to work, to save and invest, to undertake new businesses, to innovate, and to develop new products and new production processes; these are the kinds of activity on which economic progress depends. We made great progress in pursuit of these goals last year. The actions on the budget clearly reflected a resolve to get Federal spending under control, to slow the rates of its advance, and to increase the efficiency of Federal spending programs. The Economic Recovery Tax Act takes us a long way toward the goal of a tax system far less biased than in the past against saving, investing, and productive personal effort.

As a corollary, we must be certain that any revenue-raising measures we find we must undertake will not blunt the thrust of ERTA toward affording us a more efficient, more

dynamic, and more productive economy. Some have urged us to revoke the incentive-creating tax cuts enacted last year. The result would be lower real growth for many years into the future. Such a self-defeating major change in a permanent tax program to handle a temporary problem is not an acceptable solution to our budget difficulties. We must not renege on our promise to individual taxpayers to provide substantial, evenhanded reductions in their bracket rates and to insulate those reduced rates against inflation by indexing. The full three-year, 25 percent individual rate cuts followed by indexing are a policy imperative.

The personal tax rate reductions in the ERTA are not substantially larger between 1981 and 1984 than the continuing bracket creep and the payroll tax increases of 1981 and 1982. In fact, there was a net personal tax increase of roughly $15 billion in 1981. In 1982, taxpayers will barely break even. Not until 1983 and 1984 will there be any real tax cuts for some families. Taxes will rise again in 1985 due to a scheduled Social Security tax increase.

Take, for example, a one-worker family of four at the median income level of $24,000 in 1982 who has received and will continue to receive a cost-of-living increase to keep real income constant. The attached graph shows what would happen to this family if certain changes in the personal tax cuts were enacted.

Path A is current law, the three-year tax cut plus indexing.

Path B repeals the third year and indexing.

Path C substitutes indexing for the third year as of 7/1/83.

Path D repeals indexing, but keeps the third year.

The graph shows the increases in effective (average) and marginal income tax rates since 1979, the year following the last tax cut bill prior to ERTA. The one and one-quarter percent rate cut under ERTA for 1981 (5 percent for 3 months) was not enough to prevent a large tax increase due to bracket creep in 1981, and did nothing to offset the bracket creep in 1980. The percent of income paid in tax rose from 10.15 to 10.66 between 1980 and 1981, up from 9.34 percent in 1979. The taxpayer rose from the 21 percent marginal tax bracket to the 24 percent bracket.

Under the full three-year income tax cut plus indexing (Path A), the taxpayer would experience by 1984 a decrease in average and marginal tax rates to levels a shade below those

of 1979. The second and third years of the tax cut offset the bracket creep of 1980-1984. Without indexing, however, even the third year of the tax cut fails to provide permanent tax relief. Inflation and bracket creep would repeal the third year of the tax cut by 1985 and the entire tax cut (measured against 1980 tax rates) by 1987. All improvement in incentives would be lost.

Repeal of the third year and indexing would have average marginal tax rates bottom out at roughly 1980 levels in 1982 and 1983 and rise steadily thereafter. There would be no meaningful tax cut at any time. Taxes would remain at or above the levels which helped bring on the 1980 and 1981-1982 recessions.

Substitution of indexing for the third year would leave average tax rates well above 1979 levels and produce higher marginal tax rates than ERTA and reduced incentives for most taxpayers.

As this graph clearly shows, repeal of the third year and/or indexing would result in substantial tax increases on the median income families of America.

Only Path A is enough of a tax "cut" to offset the combined effects of bracket creep and payroll tax rate increases above 1980 levels.

There are those who would preserve the business portions of ERTA, and cancel most of the remaining individual tax rate reductions. Such a move would be extremely counter-productive to business as well as to individuals.

In my years at Merrill Lynch, I came to appreciate the importance of the individual in his or her role as saver, investor and entrepreneur, as well as employee and consumer. Those who think of business only in terms of large corporations forget the millions of partnerships, proprietorships and sub-chapter S corporations run by entrepreneurs whose profits are taxed at the individual level at individual tax rates.

As for employees and consumers, consider the effect of suspending the third year of the tax cut and indexing on the cost of labor and the standard of living of the American family.

Labor accounts for between two-thirds and three-quarters of the total cost of inputs in most years for most products and industries. Labor inputs outweigh capital inputs two or three to one. It is time to remember that taxes on labor and the resulting higher labor costs are extremely damaging to American business.

Tax rates on labor at the Federal, state and local level have risen until it now costs a firm more than $1.70 to compensate a worker for a $1.00 increase in the cost of living. Without indexing, it could cost $2.50 or more in the 1990's. Any wage increase, whether merely COLA's or a real wage hike, would send the workers' taxes rising and tend to push labor costs up faster than the prices the firm receives for its products. The likely consequence of such a tax situation would be falling profits and falling employment.

Labor would absorb a substantial portion of the rising tax burden, amounting to several hundred dollars per worker in higher taxes by 1986. This is only the direct cost. The weaker economy, reducing saving, investment and growth, lower productivity and reduced competitive position of American labor in the world economy would lower the market wage itself, reducing the family's real earnings by hundreds of dollars more. American workers and savers are the primary customers of American business. There is no way such an impact on the real income of its customers would be good for business.

We cannot hope to provide economic recovery by raising the cost of saving and the cost of being employed.

Similarly, we must not break our commitment to business taxpayers to provide a capital recovery system which materially reduces the tax-induced extra cost of capital. We must hold on to the Accelerated Cost Recovery System. To insure that ACRS is fully effective, we must retain ERTA's "safe-harbor" leasing provisions, although modifications to prevent abuse may be desirable.

Stability in tax policy is essential for private sector planning and economic recovery. Millions of firms planning billions of dollars of investment decisions must now be in a situation of great uncertainty with respect to leasing, ACRS and other provisions. The decisions of the Congress regarding ACRS and related provisions have the power to unleash a flood of investment or to choke off tens of billions of dollars of spending on modernization and expansion of plant and equipment. Until the political decisions are made, the economic decisions and the economic recovery are on hold.

It is unlikely in the extreme that tax increases alone could succeed in balancing the budget. First, they would weaken the economy, and be partially offset by slower growth. Second, they would encourage higher spending. In spite of the fact that the tax receipts of the Federal Government rose by $244 billion from FY 1977 to FY 1981, the government ran deficits in the fiscal years 1978 through 1981 totaling $194 billion.

We must, in short, avoid tax increases which cancel ERTA's incentive-enhancing effects.

Of course, most tax increases tend to reduce the net rewards to the individuals who provide our production muscle -- labor and capital services. This fact gives added emphasis to another of our guiding principles: reducing the deficits must be pursued mainly by reducing government spending.

Let's put the government spending issue in perspective. Last year, President Reagan presented a long-range budget strategy which aimed at slowing the growth in Federal outlays sufficiently so that, with growth in the economy, Federal spending would claim a decreasing share of total output. The aim was to reduce the Federal spending:GNP ratio from 23+ percent in 1981 to 19.3 percent in FY 1984. As matters now stand, we are nowhere near achieving that goal. With the Congressional Budget Office's present estimates of current service outlays, the projected ratio in each of the fiscal years 1983 through 1985 is 24.3 percent. To be sure, some of this huge difference between the goal the President stated and the CBO's current projection is attributable to the drastic downward revision in the projections of GNP. But if we were to achieve a ratio of less than 20 percent of GNP without an enormous reduction in spending, GNP in 1984 would have to be almost $1 trillion greater --- about 25 percent more --- than CBO currently projects for that year. It is clear that the shortfall in economic growth accounts for only a small fraction of the huge difference between the projected and the desired spending:GNP ratio; the overwhelming proportion of the shortfall results from an increase in spending.

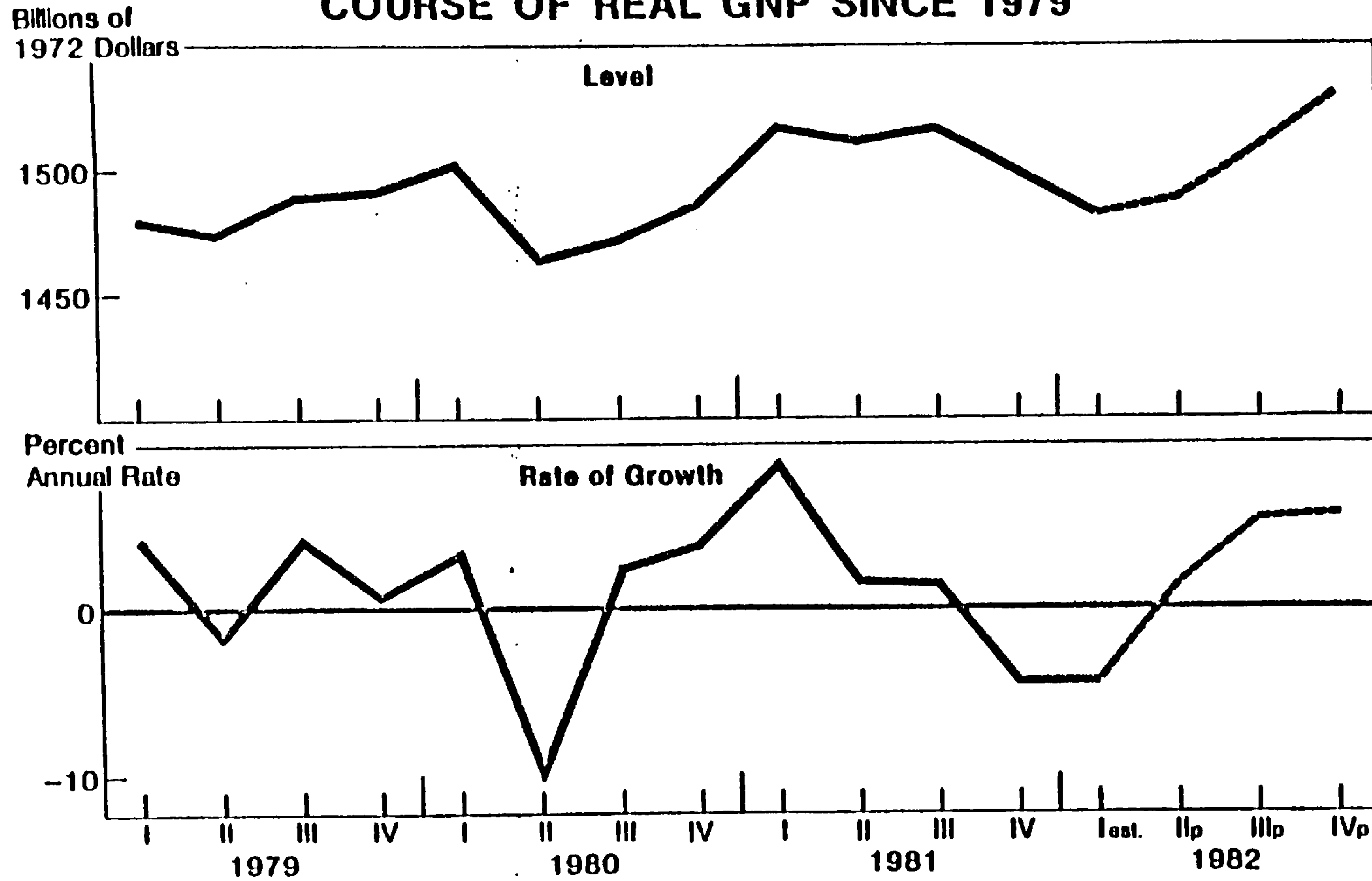
There simply can't be any question about the fact that the main line of attack on the deficits which fall out of the CBO's projections must be to reduce the Federal Government's spending. If we settle for the Federal Government's share as being one-fifth of our GNP in fiscal 1984, we face the challenge of reducing outlays in that year by about $160 billion.

I don't want to belabor this Committee with the urgency of reducing the growth in Federal spending if we are to set our feet on a course of true fiscal discipline. Moreover, given the magnitude of the deficits which appear to be in prospect, prudence urges that we also earnestly address the possibilities of reducing these deficits with revenue increases. But this clearly does not mean that the preferred way to close the gap between outlays and revenues is by tax increases. We must not attempt to balance the budget on the backs of the individuals who work and save, who produce our national income and who pay our taxes.

As the members of the Committee are aware, the President has proposed a number of tax changes which seek to improve the structure of our tax system and to improve compliance with the tax laws. We will continue our search for tax revisions of this nature and will welcome suggestions along these lines.

Notwithstanding the substantial progress made last year, the structure of the Federal tax system can be further improved and with these improvements can come added revenues to reduce projected budget deficits as we move to control government outlays. But the fundamental elements of last year's historic tax cut, the Accelerated Cost Recovery System and the full marginal rate reductions, must remain in place.

CHART I



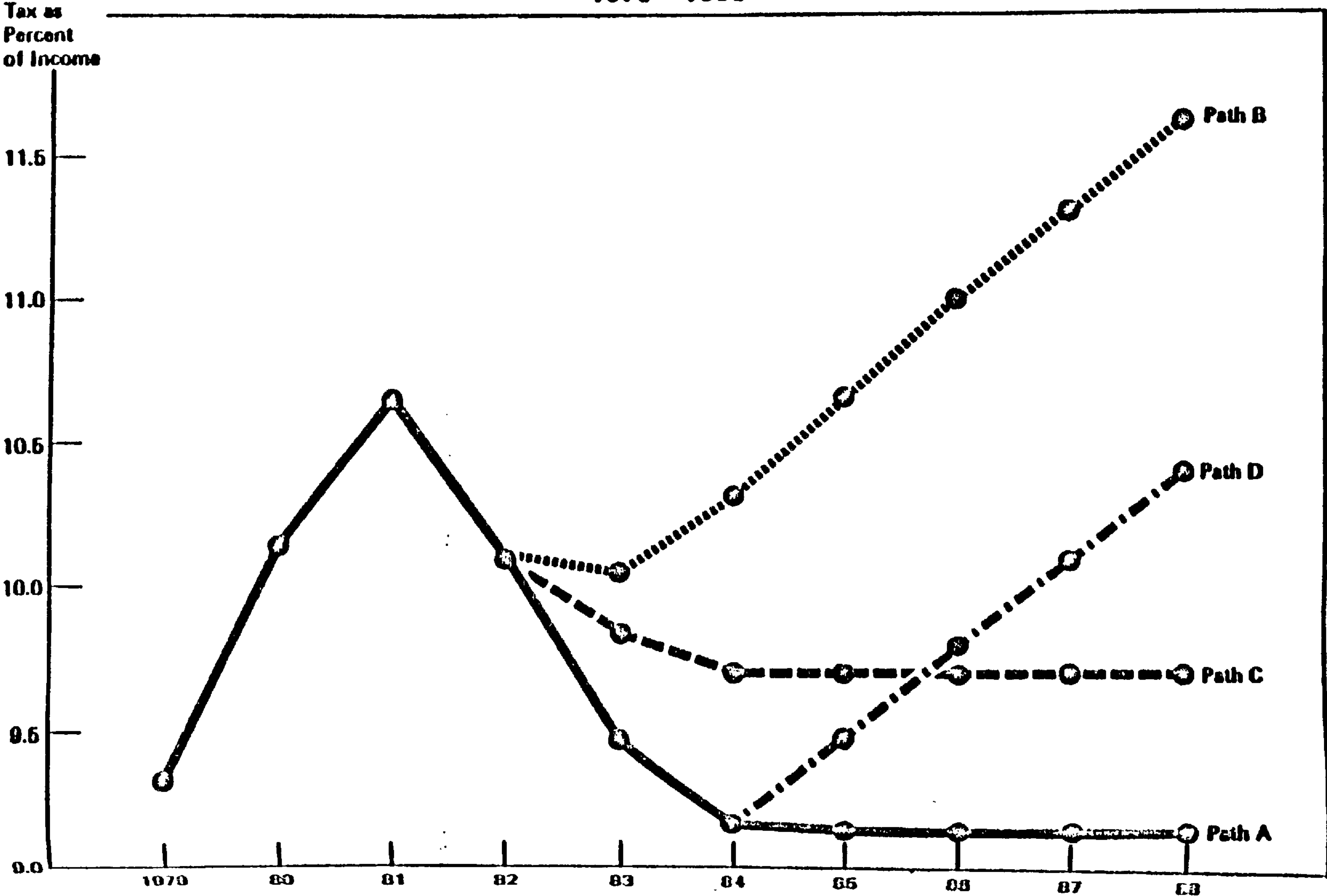
p - projected, based on rates of growth underlying 1983 Budget.

CHART II

Median Income Family of Four Earning $24,000 in 1982

Average/Marginal Tax Rates After Cost of Living Adjustments

1979 - 1988



TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE May 4, 1982

RESULTS OF AUCTION OF 3-YEAR NOTES

The Department of the Treasury has accepted $5,254 million of $12,590 million of tenders received from the public for the 3-year notes, Series M-1985, auctioned today. The notes will be issued May 17, 1982, and mature May 15, 1985.

The interest coupon rate on the notes will be 14-1/8%. The range of accepted competitive bids, and the corresponding prices at the 14-1/8% coupon rate are as follows:

	Bids	Prices
Lowest yield	14.16% 1/	99.917
Highest yield	14.19%	99.846
Average yield	14.17%	99.893

Tenders at the high yield were allotted 29%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

	Received	Accepted
Boston	$ 80,565	$ 46,855
New York	9,916,220	4,078,365
Philadelphia	56,600	28,600
Cleveland	219,430	168,195
Richmond	220,335	63,075
Atlanta	117,170	90,020
Chicago	937,770	344,025
St. Louis	167,205	139,705
Minneapolis	80,490	67,920
Kansas City	132,840	130,340
Dallas	37,740	26,740
San Francisco	619,750	66,750
Treasury	3,590	3,590
Totals	$12,589,705	$5,254,180

The $5,254 million of accepted tenders includes $1,499 million of noncompetitive tenders and $3,135 million of competitive tenders from private investors. It also includes $620 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition to the $5,254 million of tenders accepted in the auction process, $1,600 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

1/ Excepting 1 tender of $55,000.

00055

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

LIBRARY
ROOM 5004
MAY 7 '82
TREASURY DEPARTMENT

FOR RELEASE UPON DELIVERY
May 5, 1982

STATEMENT BY
ROBERT E. POWIS
DEPUTY ASSISTANT SECRETARY FOR ENFORCEMENT
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON CRIME
HOUSE COMMITTEE ON THE JUDICIARY

Mr. Chairman and Members of the Subcommittee.

It is my pleasure to appear before you here today to express the Treasury Department's views on H.R. 352, a bill to revise and improve the laws controlling false identification crimes.

The use of false identification permeates almost every facet of criminal activity. Fugitives, terrorists, armed robbers, illegal aliens and con-men all need and use false identification. The Treasury enforcement bureaus routinely encounter false identification in enforcing the laws over which they have jurisdiction.

The Bureau of Alcohol, Tobacco and Firearms often encounters situations in which fraudulently acquired identification cards such as drivers licenses are used in the purchase of firearms. This problem is particulary acute in states which can provide "on the spot" drivers licenses such as Florida and Ohio. These states also happen to be primary source states for illegal trafficking in firearms. The following summaries of two cases illustrate the problem encountered by ATF.

New York

ATF agents in New York City broke up two organized firearms smuggling rings which were transporting weapons from Ohio to New York. One group was responsible for the distribution of over 800 handguns which were transported to New York City from Youngstown, Ohio. The second group distributed approximately 200 handguns which had been purchased in Akron, Ohio. Seven defendants have been convicted in these cases and two are awaiting prosecution. The defendants in both of these cases were routinely using fraudulent Ohio drivers licenses to acquire firearms.

Ft. Lauderdale

ATF agents in Ft. Lauderdale arrested a subject when it was determined that he had used a fraudulent Florida drivers license in the purchase of 67 handguns. This subject was a Nigerian citizen and he intended to illegally export these firearms to Nigeria. The subject was convicted and sentenced. It was learned that he had used 19 aliases and had various types of false identification made up for each. This individual is facing additional Federal charges in Maryland and Virginia each under different assumed names.

The U.S. Customs Service and the Internal Revenue Service, during the course of their enforcement of the Bank Secrecy Act, frequently encounter individuals who use false identification. Typically the individuals involved are couriers working for organizations which launder money for major drug traffickers. These couriers frequently produce false identification when making large cash deposits at financial institutions in order to avoid the reporting requirements of the Bank Secrecy Act.

The Secret Service, in connection with its criminal enforcement responsibilities, has substantial direct contact with criminals who use false identification. In FY 1981, the Secret Service investigated 74,000 forged U.S. Government check cases and 9,800 forged U.S. savings bond cases. In the vast majority of these cases the fraudulent negotiations of checks or bonds were accomplished through the use of false identification. The typical forger can depend on false identification to conceal his identity and avoid detection. It is a part of his modus operandi. Forgers have little trouble in acquiring fictitious identification.

They are readily available from a variety of sources including passport studios, department stores and other criminal identification bureaus. The yellow pages of most telephone books contain listings of such criminal enterprises under "identification bureaus." The most common false identification used by forgers include, but are not limited to, drivers licenses, commercially obtained photo IDs, Social Security cards, alien registration cards, birth certificates, automobile registrations, and certificates of origin documents.

The Secret Service has also found that individuals who engage in the counterfeiting of U.S. currency often involve themselves in the counterfeiting of other government and commercial obligations as well as items of false identification. Secret Service counterfeit money investigations often result in the seizure of various types of counterfeits of local, state and Federal documents. The expertise, equipment, facilities and supplies required to counterfeit U.S. currency are identical to those required to counterfeit false identification documents. As a result of this fact, the Secret Service is in a unique position to make a significant contribution to the Federal enforcement effort in the event that a bill such as H.R. 352 is passed into law. Investigation techniques which have been successfully applied to safeguarding our nation's currency could also be utilized to protect the integrity of items of identification.

Secret Service special agents receive extensive training in the field of counterfeiting throughout their careers. Agents are not only exposed to the production of genuine obligations of the U.S. but also to the problems encountered by the typical counterfeiter. Through training and experience they become experts in the detection of counterfeit U.S. currency and other documents.

The Secret Service uses two basic approaches to counterfeiting investigations. First, at the distribution level, the Secret Service developes information through the use of confidential informants and trained undercover agents who routinely infiltrate groups involved in the manufacture of counterfeit currency. It has been said that an investigative agency is only as effective as its sources of information. This adage certainly applies in the field of counterfeiting investigations whether that investigation be directed toward counterfeit money or to counterfeit identification. The second investigative approach is directed at the manufacturer referred to as the "plant."

The Secret Service has traditionally maintained liaison with the printing industry in order to uncover suspicious purchases of paper, ink, photographic supplies, printing equipment, etc. These efforts often result in the early detection and supression of the counterfeiting manufacturing plant. The Secret Service realizes that counterfeiters do not restrict themselves solely to the manufacture of counterfeit currency. Often times they expand their operations to include a wide range of other items including false identification. Several typical case histories are hereby set forth.

In July 1981, a Secret Service investigation commenced in Las Vegas involving four individuals who were believed to be manufacturing counterfeit $20 and $100 Federal Reserve Notes. A Secret Service agent was able to infiltrate the group. He purchased $60,000 worth of counterfeit money and the perpetrators were arrested when they made the delivery. An additional $120,000 in counterfeit money was subsequently recovered at the printing plant responsible for the manufacture of the currency. Also recovered were large quantities of counterfeit identification including Social Security cards and drivers licenses from a number of states.

In March 1981, an individual was arrested by the Secret Service in possession of $50,000 in counterfeit $10 Federal Reserve Notes. The subject was a twice convicted counterfeiter who was scheduled to stand trial on the very next day on still another counterfeiting charge. Following his arrest Secret Service agents searched a residence in Mt. Dora, Florida, and seized a printing press and numerous printing plates and negatives used to manufacture counterfeit U.S. currency. In addition, the agents seized large quantities of counterfeit blank Social Security cards, negatives for an international drivers license, blank counterfeit State of Florida food stamp identification cards, counterfeit health insurance cards and counterfeit voter registration cards for the City of Baltimore.

An investigation was initiated by Secret Service agents in Tennessee in 1981 after three individuals had made suspicious purchases at several printing supply houses. Surveillance led to a residence which seemed to be their center of operation. Additional investigation led to the execution of the search warrant on the premises. The search resulted in the seizure of counterfeit State of Tennessee driver licenses, counterfeit $100 American Express Travelers Checks, counterfeit $1 Federal Reserve Notes, counterfeit State of Tennessee welfare checks and counterfeit social security cards.

The above cases are but a few of the large number of Secret Service counterfeit money investigations which also involve counterfeit identification. Large seizures of counterfeit alien registration cards have been made by the Secret Service in recent years in the Southwest in conjunction with counterfeit money investigations. It should also be kept in mind that advanced technology in the reprographic field, particulary with color copiers, pose a definite threat to the future security of legitimate pieces of identification. The Secret Service is on the cutting edge of these technological advances.

In considering the Secret Service's ability to make a contribution to the Federal effort against false identification, it must be realized that the Secret Service has a unique and sophisticated counterfeiting laboratory. Technicians in this laboratory spend a considerble amount of time examining new counterfeiting issues in an effort to determine whether or not these counterfeit obligations stem from a common manufacturer. During the counterfeiting process, certain defects are developed on printing plates which are subsequently transferred to all images produced by that plate. The counterfeit laboratory makes associations with new counterfeit issues and provides valuable investigative leads in a number of cases.

The Secret Service counterfeit laboratory has unique capabilities with regard to paper and has capabilities to perform preliminary tests for starch, protein, lignin, rosin size and more sophisticated tests which determine the pulping process and species identification. In addition, the laboratory has the largest collection of commercial and private watermarks in the world today. The watermark identification system consists of a computer file with over 16,500 domestic and foreign watermarks and a microfilm file with exemplars. This system is essential in identifying partial watermarks which are often times developed on counterfeit specimens.

Technological advances in the office machine copier industry in the last few years have resulted in an increased number of counterfeits produced either partially or entirely by this type of equipment. The Secret Service laboratory presently has an exemplar file of over 650 office machine copiers which includes specifications, date of introduction, service manuals, and other pertinent characteristics. With the aid of a computer, characteristics for a questioned copy can be searched against the exemplar file resulting in the make and model of possible suspect copiers. Once suspect

copiers have been identified, individualization can be accomplished by comparing defects on the pattern and photoconductor drum to those found on the counterfeit specimen. This could be very significant in the association of false items of identification of common origin. The laboratory is also equipped with a fully operational print shop. This equipment is used for testing plates and negatives seized in counterfeit cases, evaluating proposed security features for U.S. obligations, experimentation with regard to advances being made in the printing industry and producing plates and negatives which may be used in counterfeiting investigations.

The problem of identification is national in scope. Criminals who need and use such identification are not impeded by state boundaries. The use and travel with false identification is widespread and involves interstate commerce. State laws tend to regulate only documents which they issue.

Although there are a large number of Federal laws dealing with false identification hardly any of them include the possession of documents as a crime. H.R. 352 would correct this deficiency. Many of the existing Federal laws with respect to false identification are ineffective in deterring false identification crimes. The Treasury Department feels that there is a need for H.R. 352 and supports its passage as a aid to law enforcement.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY
Friday, May 7, 1982
London 1:30 p.m.
U.S. (EDT) 8:30 a.m.

Remarks by
Donald T. Regan
Before the American Chamber of Commerce
in London, England
May 7, 1982

I'm delighted to be able to meet with the Chamber and American businessmen here in London. Perhaps the two most immediate and most serious problems facing our nation today relate to business and London. In the latter case we are watching the war over the Falklands with grave concern. As Secretary Haig said last week, Great Britain is our closest ally. We led the search for peace in this conflict and we will continue to pursue that course. In addition, we have taken certain steps to make it clear to Argentina that we will not condone the use of unlawful force to resolve disputes.

The other issue for you as businessmen is the economy. As you know, the Administration and Congressional leaders have just completed a period of negotiations on the budget and yesterday the President announced his support of a budget plan for fiscal years 1983, '84 and '85 by the Senate Budget Committee. This new budget plan puts our nation on a course of deficit reduction that should be welcome news to the financial markets. At the same time, the plan protects the incentives for savings and investment in the President's program which are so essential to real economic growth.

I believe our economy is on the verge of recovery. The question now is: where do we go from here? I would like spend a few minutes on that question before getting to the original purpose of this speech, which is to discuss the United States' efforts to improve the environment for international investment.

The U.S. economy continues in the grip of the second recession in two years. This latest downturn began in July 1981, hard on the heels of the sharp recession of 1980, from which the economy had never really recovered. Together they form one long period of near zero growth. The causes of the problem are clear: years of excessive money growth, rising inflation, rising interest rates, rising tax rates, and rising Federal spending as a share of GNP.

In spite of the continued slide in the first quarter of 1982, there are some hopeful signs. Excess inventories are being drawn down at a rapid rate. This is typical of the last stages of a recession. Retail sales are rising. Housing starts are up slightly. Durable goods orders have leveled off. And, very

important for the financial well-being of all Americans, whether of working age or retirees, inflation continues to fall.

More importantly, we have in place a sound long-run tax program. It will not only help bring an early end to the current recession, but will promote rapid growth of income, savings, investment and employment for years to come.

However, the short-run revenue picture has been heavily affected by two factors: the recession and the drop in inflation.

We, therefore, face some tough decisions about how to finance the deficits until the growing economy triggered by our reformed tax system brings growing revenues into line with restrained outlays.

Some have urged us to revoke the incentive-creating tax cuts already in place. The result would be lower real growth for many years into the future -- a self-defeating major change in a permanent tax program to handle a temporary problem. Instead, we support certain worthwhile tax reforms, upgrading our tax collection program, and renewed efforts at controlling spending.

We are trying to narrow the budget deficit primarily from the spending side. Insofar as spending is not reduced, it is preferable to deal with the remaining transitional recession deficits more by borrowing than by taxing. The funds are pulled from the private sector in either case, but taxes impose a larger cost in terms of reduced incentives for real growth, and would choke off future expansion. Therefore let me repeat we are not raising additional taxes that affect in a major way the already enacted Economic Recovery Tax Act (ERTA) of 1981. We are mainly raising revenues from closing loopholes, and concentrating on the tax gap, or underground economy.

We believe that growth is the only way to balance the budget while promoting rising real income and employment. To that end we will be working with the congressional committees in the days and weeks ahead to fashion a budget that lowers the deficit and promotes sustained economic growth. Putting our own house in order is the best thing we can do for the world economy, for the U.S. economy, and for healthy international trade and international investment climate.

Putting our domestic house in order also will bring substantial benefits for the rest of the world, including a lessening of protectionist pressures, which loom large as dangers to the world economy.

Continuing recession and rising unemployment are a major cause of world-wide pressures to check the flow of imports, to intervene in favor of exports, and to mimic the trade and investment restraint of other nations. These pressures are

strong -- and dangerous. A further spread of protectionist actions will not resolve the fundamental problems of our economies. It will merely exacerbate the problems of others by shifting the burden of adjustment overseas -- and the effects will ricochet. Instead, we must each renew our efforts to address the fundamental economic problems at home.

Postwar economic history has shown that an open trading and investment system is good for all countries. Protectionism threatens this major dynamic force in the international economy. While open markets are a basic U.S. economic objective, we recognize that "open markets" are not, for the most part, a current reality. All major nations, including the U.S., currently impose import restraints on many sensitive products. The use of trade-distorting export subsidies is widespread. Restrictions in other areas, such as services and high technology, are also increasing. A paramount challenge for us must be to find ways to reduce or eliminate the use of such measures.

Several multilateral meetings in coming months offer an opportunity for world trading partners to address these problems. A principal U.S. ojective at these gatherings will be to obtain support for an active program to combat new problems in the area of international trade and investment. We must not only consolidate achievements of past negotiations but also maintain the momentum of liberalization for the future.

International investment will be an area of particular interest to the United States in the period ahead. Policies that distort investment have not been addressed by the international community, and the results of that oversight are becoming increasingly serious.

Through the years, international cooperation in the areas of trade and monetary affairs has been expanded and improved. Today, the GATT and the IMF provide an agreed framework for addressing problems which arise in these areas.

But despite the historical significance and increasing importance of international investment to countries and to the global economic system, no comparable institution exists for dealing with problems that arise in the area of international investment. It is time for us to mobilize international support to develop multilateral rules for investment akin to the GATT rules on trade.

As the pace of economic growth slowed in recent years, and an increasing number of economics began to experience serious strains, other developing and developed countries have resorted to the introduction of measures aimed at controlling or tipping the benefits of foreign investment in their favor. These interventionist and often nationalistic policies have taken many forms, including:

First, special incentives to attract investment or to direct it to specific sectors or geographic areas;

Second, conditions relating to equity participation, technology transfer, and financing; and

Third, performance requirements, relating to local content, exports and/or imports, or employment.

The effects of these practices, though difficult to quantify, are demonstrably negative. Such practices may provide a degree of temporary economic relief, but they result in the distortion of trade and investment flows and the inefficient allocation of resources.

They are, moreover, causing serious divisive strains among countries, fueling protectionist pressures. Their continued use could threaten the international economic system and undermine the irreplaceable role of investment in promoting development.

A substantial amount of work on specific problems and areas of interest has been done by various multilateral institutions. The time is now ripe to intensify efforts to develop multilateral rules for investment. The process will no doubt be complicated and controversial. But the potential benefits are well worth the effort.

At the OECD ministerial meeting next week, we plan to outline the investment issues that need to be addressed and emphasize the urgency of doing so. At the economic summit in early June, the United States will also seek agreement that work on international investment should be intensified, looking toward the development of a framework for addressing international investment problems.

The GATT ministerial will be a third phase of this initiative. Our objective at this meeting will be to agree on a specific work program to identify trade-distorting investment practices, such as performance requirements and incentives; assess their impact; and examine applicable GATT rules and ways the GATT might be amended to deal with trade-related investment problems.

This three-stage effort -- identification of the issues, development of political commitment to address them, and implementation of a specific work program -- is an important beginning. The spread of government policies that distort investment decisions and investment flows is insidious, undermining the dynamic force of all our economies. A major effort must be made to stop the spread of such policies, and the United States will lead that effort.

Thank you.

0 0 0 6 8 4

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

LIBRARY

FOR RELEASE UPON DELIVERY
Monday, May 10, 1982
Paris 11:30 A.M.
U.S. (EDT) 5:30 A.M.

MAY 7 '82
TREASURY DEPARTMENT

STATEMENT OF THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY OF
THE UNITED STATES
BEFORE THE MEETING OF THE OECD COUNCIL
AT MINISTERIAL LEVEL
PARIS, FRANCE
MAY 10, 1982

"Economic Revitalization"

Thank you, Mr. Chairman. Before I make any remarks on the agenda topics before us, I would like to express my pleasure at being able to meet here with the OECD Ministers for the first time. While it was not possible for me to attend the Council meeting last June, I have valued the contacts I have had with many of you, both individually and in other groups -- and welcome the chance to be here with all of you today to discuss the major challenges facing us.

That these challenges are serious indeed is a point I need not belabor. Many of us face record unemployment rates, weak economies, persistent inflationary pressures, and high interest rates. Some of our worst problems are with industrial sectors that are no longer competitive in today's markets -- but the recent OECD growth slowdown has been more widespread than in just our weakest sectors. Our citizens, disturbed at their growing economic difficulties, are crying out for a speedy solution to these problems.

Let me assure you that we in the United States are as acutely aware of these problems as any of you. The OECD is forecasting that there will be between 25 and 30 million workers unemployed this year in the OECD area -- but in my country there are already about 10 million million unemployed. And that figure does not even count more than a million Americans who have simply given up searching for a job. Many key American businesses are in serious financial difficulty -- in some cases, entire industries like automobiles, steel, and the thrift industry. Political pressures for immediate action are at least as strong in our country as in any other represented around this table. Regrettably, in the United States, as in Europe, much of this political pressure finds its way into growing calls for protectionism, to shelter jobs from foreign competition.

As strong as the desire is to find a quick and easy way out of our present situation, the fact is none of us has done so. And this should not be at all surprising. It took each of our countries a decade or more to get into this mess; it seems reasonable that getting out of it may take more than a few months. A few years ago Western leaders were beginning to wonder if we would ever escape from "stagflation." But I am convinced that we have the capability of putting our economies back in order -- and that if we stick to sound economic policies, a lasting and vigorous recovery is in prospect.

Economic Revitalization

The key to a sustainable economic recovery is stable and non-inflationary macroeconomic policy. Macroeconomic policy should be made with a long-term horizon and an eye on the fundamentals -- not juggled to fit each month's changing circumstances. In such an environment our citizens can be assured that what they will be able to enjoy the future rewards of their work effort, savings, and investment without seeing it eroded by excessive taxation, confiscatory regulations, or inflation. In a stable and non-inflationary environment, market signals can guide economic activity into efficient channels, so that today's resources are not squandered but rather are used to lay the basis for rapid growth of productivity in future years.

The process of economic revitalization must start with a credible commitment to non-inflationary policy. Our citizens remember well the inflationary policy excesses of the recent past, and are slow to believe we have mended our ways. Their persistent inflation expectations distort consumption and savings behavior, and are built into wage demands and interest rate levels.

One of the greatest impediments to the establishment of long-term policies to reduce inflation and stimulate growth is the lingering presumption (at least in some quarters) that there is a lasting trade-off between inflation and unemployment. However, the experience of many nations over the past decade shows that there is no such tradeoff. We have learned that sacrificing sound long-term policies for the purpose of supporting domestic employment in the short run has led only to more inflation and more unemployment. Inflation and real economic growth are ultimately incompatible.

For any of our countries, policy for economic revitalization focuses on three crucial areas: monetary discipline, budgetary discipline, and greater reliance on market forces for economic adjustment. A credible long-term program of monetary restraint is a prerequisite for price stability. Recent experience in the United States bears witness to the difficulty of re-establishing credibility in monetary policy once it has been lost -- and of the extreme sensitivity of market reactions to any hint that the commitment to monetary restraint might be weakening. Recent U.S. experience also demonstrates the gains from monetary restraint. Our inflation rate has declined from a peak rate of nearly 13-1/2 percent in 1979 to under 9 percent last year, and has dropped considerably further in the early months of this year.

Budgetary discipline must work from both sides of the government ledger. Expenditure restraint is necessary to reduce what has until now been an inexorable rise in the share of OECD economic output absorbed by government rather than the private sector. And restraint in taxation is crucial as well, to avoid unnecessary burdens on the private sector and distortions to private activity. Taxation which falls too heavily on production, work, and capital formation jeopardizes future investment and productivity performance. Tax systems should encourage savings and productive effort.

Finally, we must allow market forces to adapt our economies to a changing economic environment, both domestically and externally. Willingness of governments to protect existing industries, firms, and jobs when they fall victim to competitive forces is the source of considerable internal rigidity. Over time, the potential adjustment burden facing sheltered industrial and financial sectors grows even larger. This growing loss of competitiveness exacerbates political pressures for protectionist measures to keep imports out of domestic markets. And protection in one country inevitably leads to pressure for retaliation by its trading partners.

Diverging economic policies and performance have been a major source of the current international economic problems. Such problems are particularly acute when some nations are willing to tolerate high inflation while others are following policies for price stability. Those with inflationary policies must face the exchange rate and balance of payments consequences of that choice. To the extent they are unwilling to do so, they are led to respond with capital controls, import restrictions, and exchange market intervention. Distortions to international trade and capital flows grow, as do pressures on other nations to adopt accommodative policies.

Trade distortions, protectionist pressures, and exchange market fluctuations can all be negative consequences of diverging economic policies and performance. All of these are symptoms of underlying problems in economic policy: of inflationary policies and of a need for structural adjustment. In neither case does a continuation of bad economic policy help the situation. Neither does government intervention in the market to disguise the symptoms of incorrect policies. Exchange market intervention, for instance, cannot succeed for any length of time in keeping exchange rates from moving in the face of powerful market forces. The only answer is to correct the policies themselves.

The U.S. Economy

We are now trying to follow this sort of long-term approach in the United States. Recent U.S. economic performance is far from a complete model of success. But our policies are already working in some important respects, and we are sure they will succeed.

Reversing the trend of stagflation is not a quick or painless process. The immediate burden of this transition is real, and is substantially increased when the effort to implement longer term policies is half-hearted. In the United States, transition problems have been manifested most dramatically in interest rate levels. As

I mentioned earlier, we have had major successes in our fight against inflation: the rate of increase in consumer prices was running at only a 1 percent annual rate in the first quarter of 1982 -- and prices actually fell in March, the latest month for which data are available. But on present trends, our government's budget deficit is likely to be bigger than we would wish. At the same time, we have had difficulty reaching a slow and steady monetary growth path. Extended periods of overly-rapid money growth have alternated with periods of stagnation or absolute decline. The long-term trend in the rate of money growth is clearly downward, but variability of money growth is taking its toll. Both problems are having an impact on interest rates, but we do not intend for either to persist much longer.

Our Administration is in total agreement with the Federal Reserve on the goals for monetary policy -- and we support fully the Fed's stated intention of attaining a smooth, slow monetary growth path.

On the budget front, we agree that the deficit is too large. While historical observation shows no connection between budget deficits and interest rate behavior, there currently appears to be concern that the deficit will consume resources which would otherwise be invested. Incentives for saving provided by the President's tax program, as well as the reduction in our inflation rate, will help to assure that ample funds are available to finance the deficit. However, because the uncertainty surrounding this issue seems to be contributing substantially to risk premia being added to U.S. interest rates, we are trying to work with the Congress to get the deficit back on a declining track. But the Administration cannot do so by jeopardizing its more fundamental goals: reducing the burden of taxation on private activity, and providing a strong national defense. Changes must come in other areas, and we are sure they will.

Energy

A non-inflationary economic policy based on free-market principles can be applied to many specific economic policy areas besides macroeconomic policy. I have already alluded to the success of such policies in reducing inflation in the United States. Another success story has been in the energy area.

In the mid-1970s, growing Western dependence on imported oil became the major destabilizing force in the OECD economy. Since we are the largest oil importer, rapidly growing U.S. oil imports were of particular concern. The United States addressed its over-dependence on imported oil by removing controls on domestic petroleum prices, beginning in April, 1979. To accelerate this, in January, 1981, President Reagan totally decontrolled domestic oil prices, encouraging both greater conservation and increased domestic production.

As a result of this reliance on market forces, the United States imported over 5 million barrels of oil per day less in the first quarter of this year than we did in the first quarter of 1977, the peak period for our oil imports. This amounts to a drop of about 60 percent -- despite the fact that this year's figure is increased by the oil we have added to our Strategic Petroleum Reserve, which we were not

doing in 1977. U.S. domestic oil production has reversed its downward trend, and U.S. oil consumption has dropped substantially. While weak economic activity is a factor, the downturn in oil imports more importantly reflects long-term adjustments which are underway in our economies -- adjustments whose impacts will continue for many years into the future, on the basis of the path that real oil prices have already taken. These developments in turn have been major factors in the current slack in world oil markets -- a condition which we welcome.

Relations with Non-OECD Countries

Our relations with non-OECD countries constitute another key area for productive work here in the OECD as well as in other international institutions. This is true both in our relations with developing countries, and with the countries of Eastern Europe. Mr. Stoessel will be speaking tomorrow about our views and ideas in these areas.

With respect to the developing countries, recent work by the OECD has been particularly encouraging. It recognizes the diversity of interests of developing countries, and consequently implies that one simple solution or single grand scheme cannot hope to meet those interests in concrete terms.

In other settings, I have remarked that traditional approaches are inadequate to address the economic circumstances of the 1980s. While some developing countries have surged ahead in economic growth and development, others have not progressed -- and indeed risk sliding backwards. The needs of each are unique and diverse, as are their cultures, history, and geographic characteristics. Therefore, we must not seek all the answers from one solution, but be cognizant of the opportunities on all economic fronts: domestic policies, international trade and investment, other private capital flows, and official development assitance. Each of these elements must be viewed in relation to a particular economy and all must operate in concert to generate maximum productivity and economic benefit.

In this context, I referred at last year's meeting of the IMF/IBRD Development Committee to a "positive and responsible approach" to the problems surrounding economic growth and development.

As a positive approach, I would emphasize the need by all countries to foster activities which are economically sound and which can stimulate additional productivity. Allowing entrepreneurs to mobilize domestic and international resources through trade, investment, and financial activities, in response to market signals, is the best way to assure resources are allocated to the most productive uses.

A responsible approach is one in which all countries, both developed and developing, have the strength to pursue policies which control inflation and keep markets open. We, the member countries of the OECD, must be especially responsible. We are the major markets for the exports of developing countries, and the major sources of their investment funds. To tolerate inflation, to cast doubt on the openness of our markets, or to consciously impede investment flows

would stifle opportunities within the grasp of developing countries. Furthermore, to engage, in the name of development, in assistance policies which perpetuate fundamental economic weakness can only be counterproductive and confront us with further problems.

For our part, we in the United States are pursuing a positive and responsible policy. We have completed a rigorous review of the multilateral development banks and charted a policy course we believe will permit them to address the major problems of development finance in the 1980s. We have secured passage of a foreign assistance appropriation -- the first in three years -- which provides for an increase in our official resources for devloping countries at a time when we are making reductions in domestic programs. And we have gone forward with an integrated plan for the Caribbean Basin to address the particular needs of that region.

As we pursue these policies nationally, we continue to support the IMF's central role in the international monetary system. In fulfilling that role, it makes major contributions to world economic performance through its emphasis on effective adjustment, market forces, and the need for sound economic policy. Indeed, generally we put our trust and confidence in the existing international organizations as the best means for sharing ideas on policy approaches and fostering the fundamental strengths of the global economy. By promoting sound economic policies, these institutions, each working in its sphere of competence and expertise, make lasting and tangible contributions to economic and social advancement in their member countries.

In our relations with Eastern Europe, and most especially with the Soviet Union, we must be guided by both sound financial and economic considerations and the extra measure of prudence dictated by current geopolitical realities. We should be particularly cautious to avoid circumstances in which we could be seen as disregarding both of these rationales. Especially in our financial relations with the Soviet Union, there is no good reason to be providing officially subsidized credit. We strongly support reclassification efforts within the Export Credits Arrangement, to limit officially subsidized credits to countries which are able to afford commercial terms. More generally, we would call upon the Ministers to take whatever steps are necessary to meet our remaining goals in this area -- raising minimum interest rates on officially-supported credits, and reducing export credit subsidies.

International Trading System

In the current economic environment, all our countries face strong political pressures for protectionism. Happily we have been able to resist a great many of them so far. The potential damage to the international trading system is severe. I congratulate Secretary General Van Lennep for his thorough examination of the issues facing us over this decade. He has identified many high-priority areas for action.

Here in the Council at Ministerial level, we have a unique opportunity to take positive steps in order to forestall this danger. We must take this opportunity to set in motion measures which will further liberalize the system of international trade and

investment. My colleagues will speak later about a number of priority areas for immediate action in the OECD and the GATT. These include pressing for greater international discipline over the use of temporary import restrictions to safeguard ailing domestic industries, and the need to press forward with work on services. I want to place particular emphasis on our proposals for the investment area.

Foreign investment is beneficial to all our economies. Like domestic investment it introduces new technology, creates employment, and improves productivity. International investment decisions that are market-oriented will result in the most efficient and profitable allocation of resources. Hence capital will be most productively employed, to the benefit of all countries, where it is not artificially constrained. Moreover, cooperation among developed and developing nations can create an international environment in which investment can make a greater contribution to the development process.

The present global trading system is based on the general principle of free and open markets. Our governments have committed themselves to the expansion and balanced growth of trade through non-discriminatory practices, through the reduction of barriers to trade, and through the avoidance of shortsighted balance of payments and employment policies which harm other countries and the global economic system. We have nurtured and developed this international framework over the past three decades. Although the system is threatened periodically, and although much work remains to be done, we have made considerable progress. We are committed to moving forward, to continuing that progress.

But despite the increased importance of international investment to countries and to the global economic system, <u>no comparable framework exists for international investment.</u> Government intervention in international investment decisions is increasing. Both developing and developed countries are introducing measures to control or to tip the benefits of foreign investment in their favor.

These investment-distorting policies take many forms.

-- Governments have created incentives to attract investment or to direct it to specific sectors and geographic areas.

-- They have set down conditions relating to equity participation, technology transfer, and financing.

-- Foreign investors must often meet specific performance requirements, relating to local content, exports or imports, and employment targets.

The effects of these practices are negative for both the home and host countries and for the global economic system. Trade and investment flows are distorted and resources are not allocated efficiently. For home countries from which investment flows, export opportunities and the associated employment are lost due to trade-distorting effects of investment policy, rather than as a

normal result of changing comparative advantage. Host countries in turn often expand inefficient industries, and spend substantial amounts of money on incentives which are of little or no consequence to actual investment decisions. The budgetary problems of some poorer countries who believe they must compete or be passed by are thereby exacerbated.

Unrestrained use of these types of measures is causing serious divisive strains among countries, fueling protectionist pressures and gradually eroding the progress we have so painstakingly achieved in the trade area. Continued use of these measures could also jeopardize the important role of investment in promoting development.

Since the mid-1970s, there have been important changes in international trends and forms of investment. The traditional forms of investment -- foreign subsidiary or branch plant operations -- are being supplanted by joint ventures, coproduction, licensing and other arrangements. The size of international direct investment flows has shrunk, particularly to some developing countries. This latter is a disturbing trend. The international community plays a helpful and at times critical role in the development process through private investment flows to developing countries; but developing countries must recognize that this cannot happen unless they create a favorable internal climate for foreign investment.

Much useful work relating to international investment has been done in multilateral fora and more is planned. OECD work has been particularly important, but much remains to be done. In the OECD Investment Declaration and related decisions, the OECD countries have reached consensus encompassing: the extension of national treatment to foreign investors; agreement to give "due weight" to the effects of incentives and disincentives to direct investment on OECD countries; and the establishment of voluntary guidelines for multinational enterprises. However, these instruments are not binding; they contain no enforcement procedures or sanctions.

The OECD's Code of Liberalization of Capital Movements contains provisions relevant to international investment and represents a commitment by OECD countries adhering to the Code to progressively abolish restrictions on capital movements. However, there must be greater progress in inplementing the principles and commitments embodied in the Code. Also, the OECD is unique in its experience and work on liberalization of banking and financial activity. It deserves our full support.

Agreement has been reached as well in the United Nations International Labor Organization's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the UN UN Code on Restrictive Business Practices. Work is also proceeding on a possible Code of Conduct Relating to Transitional Corporations and an International Code of Conduct for the Transfer of Technology.

In the IMF and IBRD, the Development Committee's Task Force on Private Foreign Investment has reviewed the role of investment incentives and performance requirements in international direct investment flows and recommended additional detailed study on the

impact of these measures on investment flows. The International Finance Corporation began this study in February 1982. The study will attempt to quantify the impact of investment and performance requirements for four industries in ten developed and developing countries. Information derived from this study will enhance our understanding of these issues, and may suggest future directions that the IMF and IBRD should take on these issues. Finally, we share World Bank President Clausen's interest in the concept of an international investment insurance facility which would improve the investment climate. We look forward to the initial work being done on this concept by the Bank staff.

While these efforts have been extremely beneficial and should continue, there is a strong need to escalate all multilateral efforts in this area.

We must recognize that international investment is an activity of growing importance to the international economic system and to individual countries. We must also agree that the proliferation of national measures to control investment has serious adverse consequences for the international economic system. An appropriate concrete expression of this agreement would be a Ministerial commitment to avoid such measures. A further positive outcome would be an endorsement of an intensified work program within the OECD, leading to improved OECD instruments in the investment area, and to proposals on trade-related investment for the November GATT Ministerial.

Conclusion

In the context of our recent economic difficulties, we face strong political pressures. We would all like to solve our problems quickly and cleanly. Since no quick and easy solutions are available, our citizens sometimes tend to despair, or to turn outward to vent their frustrations.

We believe that while there is no quick and easy solution, the OECD countries have it within their power to return our economies to a healthy state. What is required is a non-inflationary and stable approach to economic policy, predicated on monetary discipline, budget discipline, and non-interference with market forces. We must set our sights on a long-term planning horizon and not let passing events stampede us into bad decisions.

And in particular, we must deal with the causes of our present economic difficulties -- reversing inflationary and undisciplined policies our countries have pursued in the past, and allowing structural adjustment to take place. Hiding the symptoms of these problems through government intervention is not the answer. Sound economic policy is.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

<u>FOR RELEASE UPON DELIVERY</u>
Thursday, May 13, 1982
Helsinki 1:00 P.M.
U.S. (EDT) 6:00 A.M.

Address
by
The Honorable Donald T. Regan
before the
Paasikivi Society
Helsinki, Finland
May 13, 1982

Good afternoon. I am delighted to be with you today.

As you are no doubt aware, we have been concentrating on international economic issues both in Paris earlier this week and here in Helsinki with the IMF/World Bank meetings.

I would like to shift gears somewhat this afternoon and talk with you about America's domestic economic program. I say shift gears "somewhat" because domestic and international economics cannot be divorced entirely and what I am about to say does relate to the international economic picture.

An accurate picture of the Reagan economic program requires first a clear understanding of the underlying objective of the policy. That objective, of course, is to have real and sustained economic growth in the United States. We want an America that is "on the move again" -- in terms of investment, technology, production, and prosperity. We start with a couple of basic, but perhaps profound, premises: First, economic production comes from the private sector <u>not</u> the public sector. Secondly, production comes when, <u>and only</u> when, there exist sufficient incentives to take risks and to produce.

This drives right to the heart of the American view -- or at least this Administration's view -- of the proper economic role for government. Governments do not and cannot create wealth. But they can create the environment -- through public policy -- to make it either more or less likely that the productive sector of society will in fact create wealth. And therefore our primary role is to establish the public policy framework that will maximize the chances for real economic growth.

Now what is that framework: You are all aware I am sure that the Reagan economic program consists of four key elements: one, tax rate reduction, two, cutting government spending, three, reducing regulations and lastly, a slow, stable growth in the money supply. Each of these elements is designed to allow growth to occur. Notice that I did not say make it ocur. Allow it to occur.

R-763

American productivity, once the shining model for the rest of the world, has been growing at a much slower rate than in many other countries. And a key factor in that decline has been our savings -- the amount of money available for productive investment.

In 1975 personal savings was 8.6 percent of disposable income. By 1980 it had fallen to 5.6 percent and finally bottomed out at 4.6 percent a year ago. The figure for the 1981 4th quarter was an encouraging 6.1 percent. Our program of tax rate cuts is designed to stimulate savings even further. I think you will see both savings rates and productivity rising in the years ahead.

Private saving resulting from normal year-over-year growth and the Economic Recovery Tax Act will be several times greater than the total borrowing requirement of the Federal Government in 1983 and 1984 and thereafter.

The net additions to total private saving are larger than the rise in the deficit. They will produce "crowding in" rather than "crowding out." This extra shot in the arm of capital markets will put downward pressure on interest rates. Even after financing the Federal deficit, there will be billions of additional dollars each year for private investment.

Normal year-to-year increases in saving exceed $40 billion each year. This will be supplemented by the additional personal savings and additional business retained earning induced by the tax cuts.

Compared to 1981, private saving will be more than $60 billion higher in 1982, more than $170 billion higher in 1983, and more than $260 billion higher in 1984. Private saving was $480 billion in 1981. It is projected to rise to more than $740 billion in 1984.

It has been lack of growth, more than anything else, that has been responsible for the current and projected deficit. As a rough rule of thumb, each time growth falls off by enough to produce a 1 percent increase in unemployment, the budget deficit widens by more than $25 billion. In fact, if we had grown fast enough over the past four years to get unemployment down below 6 percent, the current deficit would be roughly $75 billion lower.

Growth is the only way to balance the budget while promoting rising real income and employment.

For too long we have been letting inflation fight the deficits. It is the most insidious form of taxation. Insidious because it is unlegislated and because it is subtle enough that many do not even understand what is happening to them.

In the U.S., with inflation running at 12, 13 and 14 percent under the last Administration, tax receipts were going up pretty fast. But individual purchasing power was going down.

But did we balance the budget with more taxes? Of course not. Because more taxes really do only two things: discourage economic activity and encourage greater government spending. If you survey the economies of the world, you will find that those countries with the highest tax rates tend to have the largest deficits.

The problem with tax increases is that an increase in rates usually means a decrease in the tax base. Again, if the objective is to increase productive activity, a country's tax system must be structured in such a way that incentives are preserved.

The real key to balancing any budget is to control spending --- which is the second pillar of our program. Now the way the media throws words around like "slash" and "ax" and "slicing" the budget, you would think the United States Government was about to shrivel up to nothing. Well, of course, that is ridiculous. It may surprise you to know -- and I'm not really proud to say this -- that the Reagan budget is the largest budget in the history of the country. What we have done is decrease the rate of increase! From 13 percent in the previous four years to just over 10 percent today. That is really what all that arguing back in Washington is about. At what rate shall the Federal government grow?

Now in terms of the basic objective of -- cutting government growth -- the critical thing is to reduce government spending as a percent of GNP. And that we intend to do. Our spending is now almost 23 percent of our GNP. We want to reduce that figure to 19 percent.

Just as important as tax and spending cuts is monetary policy. This Administration has stressed from the very beginning that it wants moderate, steady growth in the money supply.

As you know, in the United States, the central bank -- the Federal Reserve Board -- is an independent agency. The Executive branch can recommend monetary policy; but the Fed has the ultimate responsibility to formulate that policy and to carry it out.

As you know, Paul Volcker, the chairman of the Federal Reserve Board, is here in Helsinki with us and he will tell you that the Fed and the Administration are in agreement on this policy.

Now why do we feel so strongly about getting slow, steady money growth?

Because the hard evidence of history indicates a strong correlation between money supply, inflation and interest rates.

The Administration's original recommendation was that the rate of money growth gradually be cut in half by 1984 from the average 7.8 percent rate of the prior four years; this is the assumption that we built into our economic projections. The deceleration that has actually occurred was initially much more rapid -- almost three-fourths of the planned reduction in the first year -- until end-of-year increases in money growth rates raised the level of M1B above the lower end of last year's target range. Currently, the level of M1 is $4 billion above the target range for 1982.

This more rapid deceleration of money growth has economic consequences -- some good, some bad. It is leading to a faster reduction in inflation, but it also means reductions in real output, employment, and real income. Lower inflation and lower real output mean lower GNP and lower Federal tax revenues. Lower inflation also means lower Federal outlays on indexed programs, but only with a considerable time lag. In the interim, the deficit widens. It is amply clear from history, both here and abroad, that deficits, if not monetized, do not produce inflation. Indeed, the lower rate of inflation is a partial cause of the current deficit.

Recognizing the short-run costs and the long-run benefits of controlling inflation, the Administration remains committed to its goal of slow and steady money growth over the long run. Given that goal, we supported money growth in the middle of the Federal Resreve's M1B target range in 1981, and we support money growth in the upper third of the Federal Reserve's tentative M1 target range for 1982.

There are those who are urging the Federal Reserve to abandon its goal of a steady and moderate growth rate of the money supply. They believe that faster money growth would depress interest rates, history does not support that view.

The Administration strongly supports the Federal Reserve's announced goal of a steady and moderate rate of growth of the money supply, not because we seek to drive interest rates up, but because it is the only way to bring inflation and interest rates down on a permanent basis.

Economies are obviously complex systems and I am not suggesting that inflation is the <u>only</u> cause of high interest rates. But it is certainly the <u>major</u> cause. And you cannot find a nation in the world -- not one -- which has had low inflation for any sustained period of time and has high interest rates.

It is clear that there simply cannot be a robust recovery from the recession without a continued decline in interest rates. While those rates are still much too high it is important to remember that the prime rate has declined 25 percent in the U.S. in the 15 months that President Reagan has been in office.

Inflation is down in the United States and will stay down. And as the market place gains confidence that this is the case, you will see interest rates continue their downward trend.

While on the subject of interest rates, let me say a few words about deficits and interest rates.

First, we are striving to balance that American budget. But as I suggested a moment ago, the way to do that is to cut spending. Balancing a budget by increasing taxes is fundamentally a self-defeating exercise.

Secondly, history -- that great teacher -- also shows that there is no correlation between government deficits and interest rates. Japan has among the largest deficits (as a percent of GNP) of any nation in the industrialized world. Yet it has among the lowest interest rates. The United States, on the other hand, has relatively small deficits (as a percent of GNP) and a recent record of high interest rates.

Deficits are a problem. But they are not fundamentally an interest rate problem.

The difficulty is that there is -- and has always been -- an important psychological dimension to the marketplace. What happens in the stock market, for example, is not so much a reflection of what is happening in the economy. Nor is it a reflection of what people think is going to happen. Increasingly, it is a function of what people think <u>other</u> people think will happen. And a lot of people think that the deficits and lack of agreement on the budget is keeping interest rates high. That belief -- by itself -- unfortunately, has a way of becoming a self-fulfilling prophecy.

So we are committed to reducing the deficits and demonstrating that inflation will be kept under control.

The President's economic program is really not complicated; it is not esoteric. It is based on sound fundamentals. We are in the process of reducing tax rates, reducing spending, reducing regulation and slowing and evening out money growth. Does that sound like the "voodoo fringe" or "experimental economics?"

I submit to you, rather, that it is the ultimate in common sense. And it is a program that is based on a proven track record.

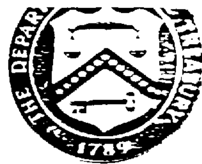
You have probably heard us say many times: the best thing the United States can do for the international economic order is to first get its own domestic house back in order. And that we are doing.

For our part we are moving agressively in the direction of low inflation, declining interest rates and real economic growth.

I believe the next few years will witness world economic revitalization. And I think that Europe and the United States -- in particular -- are in a position to pursue the kind of public policies which set the conditions for that growth.

Thank you.

TREASURY NEWS



epartment of the Treasury • Washington, D.C. • Telephone 566-204

Remarks of the Honorable Donald T. Regan
Secretary of the Treasury of
The United States
Before the Swiss-American Chamber of Commerce
Zurich, Switzerland
May 14, 1982

As you probably all know, I have just come from a week of visits and meetings elsewhere in Europe. Last weekend I visited London; Monday was the OECD Ministerial meeting in Paris; and the last three days were spent at the IMF Interim and Development Committee meetings in Helsinki. It has been a productive experience and I am glad to be with you in Zurich tonight.

Some of you may remember that I addressed the Swiss-American Chamber here in Zurich about five years ago.

I was with an investment firm then that, as you may know, is known for being "bullish on America."

And I said on that occasion, "We are bullish on America because we have faith in our country and in the ability, and willingness, of its people to rise to challenges, overcome obstacles, and move ahead to a greater and more properous future for the people as a whole.

In that sense of the word, we are also bullish on the western industrialized nations and, more generally, on the Free World. We do not ignore the difficulties and obstacles, but we are confident that, with international cooperation and good will, they can be successfully overcome."

The consultations of the past few days, and those coming up in the next few weeks, can make a major contribution to economic cooperation among nations. Our commitment to an effective dialogue with our major economic partners is serious and it is real.

Back home, Americans tend to think of foreign relations in terms of diplomacy and national security -- developing political allies and keeping the basic challenges to democratic freedoms at bay. National security is certainly the ultimate necessity and of overriding importance in U.S. foreign policy.

R-764

But I would contend that economics is the real stuff and substance of our daily international relations. Here in Switzerland this is an everyday fact of life, and it is becoming more so in the United States. Our economies are increasingly dependent upon international trade and capital flows.

In light of this interdependence, President Reagan summed up the central issue before us. Speaking in Philadelphia last Fall he said "Do we persist in contentious rhetoric, or do we undertake practical tasks in a spirit of cooperation and mutual political will? He continued, "I think our country has signaled its answers to that question."

But there are forces pushing against cooperation. Weak economic activity and rising unemployment have led to strong political pressures in all major nations to limit imports, to intervene in favor of one's own exports, and to retaliate against the trade and investment restraints imposed by other nations. The growing integration of domestic and international markets has become a two-edged sword. On the one hand, it has led to pressure to constrict the open market system. On the other hand, that same integration makes it all the more important that the open market system not be constricted.

Clearly each nation has dominion over its own economic policies. But at the same time, each nation also has the responsibility to recognize the international, as well as the domestic, consequences of those policies.

Many current world economic problems are the result of basic divergences in national economic policies. If a nation does not like those consequences, it has two choices: correct the divergences, or try to mask the symptoms of the problem by suppressing market signals.

The United States believes that the former is the only realistic choice. Thus, it is our view that where exchange markets are unstable due to differing economic policies and performance, exchange market intervention or capital controls cannot succeed in eliminating the basic divergences. Similarly, trying to coordinate interest rates, without regard to underlying market forces, is futile.

Let me touch briefly on a few specific proposals we have in mind regarding cooperation to avoid market-distorting policies.

A major factor underlying economic recovery after World War II was the dramatic expansion of world trade and capital flows. This expansion could not have taken place without the continued liberalization of international trade and capital markets.

Today the major trading countries all face increasing domestic political pressures for protectionism. Happily, we have been able to resist most of those pressures so far.

Government intervention to protect domestic industries does not solve basic competitive problems -- it merely prolongs them. Over time, the necessary adjustment burden grows ever larger. And a vicious cycle is set up where the growing loss of competitiveness encourages ever more protectionist and market-distorting measures. And protection in one country leads to retaliation by its trading partners.

The interim committee of the IMF recognized the danger of this. All 22 nations of the committee formally agreed yesterday, in Helsinki, that pressures for protectionism "must be firmly resisted by all countries, and stressed the need to eliminate these practices where they already exist."

Not all of our concerns here relate to direct restrictions on imports. Tax policies, subsidies, and other measures are widely used to maintain production and employment in hard-pressed sectors. Where these policies result in subsidized exports which distort trade and undermine our comparative advantage, as is the case with EC steel and agriculture, we are justifiably concerned about the potential impact on domestic U.S. producers.

We are concerned about the increasing use of investment performance requirements which distort both investment and trade flows.

And the United States is determined to reduce, through agreement, the subsidy element of official export credits.

We are concerned that restraints in the important growth area of services are increasing and we intend to stave off further restraints in the future.

Finally, we are seriously concerned about the lack of market access for competitive U.S. goods in Japan.

It is no secret that there are growing pressures in Congress for new restraints on trade. These pressures are in response to a conviction that the United States is not being treated fairly in international markets.

We feel we have an open market system while others are closing theirs.

Now, some of these problems can be addressed through existing international rules, such as the GATT and the OECD. But in many areas, existing rules are not sufficient. We need to improve them or to devise new ones. For the longer term, new rules seem especially needed in the services and investment fields. This was a major area of discussion earlier this week at the OECD Ministerial, and we will be seeking a strong international commitment to action in these areas at the upcoming GATT Ministerial in November.

In terms of macroeconomic policy, all the major industrial countries share the same long-term goals:

-- stable, vigorous, non-inflationary growth;

-- reduced unemployment; and

-- greater stability of financial markets.

The challenge is to translate this agreement on goals into effective policies.

There is an inherent tension between nations which are willing to tolerate high domestic inflation as they pursue their other social objectives, and those nations which are committed to price stability. Nations with inflationary policies have to accept the exchange rate and balance of payments consequences of those policies. If they are unwilling to do so, they usually invoke capital controls, trade restrictions and exchange market intervention.

This can lead trading partners to retaliate or lose their resolve to combat inflation -- a kind of sinking to the lowest common denominator -- clearly a misdirection of the spirit of international cooperation.

I constantly hear the argument that U.S. interest rates are higher than necessary, due to a mistaken "policy mix" of loose fiscal and tight monetary policy and that other countries have been forced to drive their own interest rates to artificially high levels, in order to avoid an even more dramatic currency depreciation. As a result, our interest rates are seen as contributing to rising unemployment in Europe. Their advice to the United States is to move more quickly to balance our budget (through higher taxes if necessary), perhaps ease monetary policy, and join them in coordinated exchange market intervention.

We believe the impact of our interest rates on Europe has been considerably exaggerated. High foreign interest rates have not simply been passive reactions to U.S. monetary policy and interest rates. They are mainly the result of events abroad like past inflation performance, persistent inflation expectations, and the large budget deficits and external financing needs faced by some countries.

At the same time, I have found a strong desire here in Europe for a deficit reducing budget. Let me say that we are commited to having just such a budget.

As you probably know, that series of negotiations last month with congressional leaders was not successful. But there is now new light at the end of that congressional budget tunnel. A new budget plan, passed last week by the Senate Budget Committee and supported by President Reagan, will put the United States on a course of deficit reduction. This new budget plan, for fiscal years 1983, 84, and 85, should come as very welcome news to the financial markets.

We are committed to taking budgetary steps that will lower deficits and, at the same time, protect the incentives for savings and investment in the President's program which are so essential to real economic growth. The Senate Budget Committee's plan accommodates both of those objectives.

The weakness of certain foreign currencies also reflects many factors besides high U.S. interest rates. For Europe, such factors include inflation trends during the last year, uncertainty over the resolve of European governments to continue the fight against inflation, generally weak European current account positions, and political developments such as the Polish situation. A partial analysis which looks only at the simple correlation between two variables and assigns a causal relationship is very misleading. In fact, there was usually very little correlaton between changes in international interest rate differentials and exchange rate movements last year. This winter, the rebound in U.S. interest rates did seem to have some direct exchange market impact, but that correlation has since weakened again.

The key to sustained economic growth is stable and non-inflationary macroeconomic policy.

However, one of the greatest obstacles to the establishment of long-term policies to reduce inflation and stimulate growth is the lingering idea that there is a lasting trade-off between inflation and unemployment. But there is no such trade-off. We have learned that the sacrifice of sound long-term policies for

the purpose of supporting domestic employment in the short run has lead only to both more inflation and unemployment. It is inflation and real economic growth that are ultimately incompatible.

For any country, economic revitalization must focus on three crucial areas: monetary discipline, budgetary discipline, and greater reliance on market forces for economic adjustment. A credible long-term program of monetary restraint is a prerequisite for price stability. Recent experience in the United States vividly illustrates the difficulty of re-establishing credibility in monetary policy once it has been lost. And it also illustrates the extreme sensitivity of the market to any hint that the commitment to monetary restraint might be weakening. But our experience has also demonstrated the gains from monetary restraint. The U.S. inflation rate has declined from a peak of nearly 12-1/2 percent in 1979 to about 3-1/2 percent in the last six months.

We are now following a long-term approach in the United States. Recent U.S. economic performance may not yet appear to be a model of success. But we are confident that our approach will bring a lasting solution to the economic problems of the past decade.

Reversing the trend of stagflation is not a quick or painless process. The immediate burden of the transition is real, and it is substantially increased when the effort to implement sound longer-term policies is only half-hearted. In the United States, transition problems have been manifested most dramatically in high interest rates. Persistently high interest rates have been linked to volatile money growth and to the psychological impact of large budget deficits. We do not intend for either of these problems to persist.

On the budget front, the deficit is clearly too large. Historically there has been no correlation between government deficits and interest rate levels. But there is a concern that the deficit will consume an inordinate amount of resources which would otherwise be invested. We are confident that the incentives for saving contained in the President's tax program, as well as the reduction in our inflation rate, will help to provide ample funds to finance the deficit. But the uncertainty surrounding this issue is itself contributing to the high risk premium reflected in current interest rate levels. We are therefore working with the Congress to get the deficit back on a declining track.

In conclusion, there are two impressions I hope you will carry away from this evening.

The first is that the Reagan Administration is deeply committed to policies for sustainable recovery. We do not want to be responsible for putting the U.S. economy on another cyclical rollercoaster. The policies of this Administration are designed to set the stage for a vigorous and durable economic recovery, based on price stability and private market activity.

Secondly, we are serious about international economic cooperation. Here in Switzerland, I know there is a deep appreciation of the virtues of cooperation. And you have a particularly clear understanding of the difficulties which can arise when economic partners refuse to cooperate.

At the meetings both in Paris and Helsinki earlier this week, I found widespread agreement for a common economic approach, based on sound fundamentals.

This will also be a major theme for us in discussions at the Versailles Summit next month. We hope that the Summit will likewise result in a new commitment on the part of the major Western nations to a common approach, based on price stability, discipline in monetary and fiscal policies, and non-intervention with market forces.

As I conclude both this speech and my travels tonight, let me say that I found a strong spirit of international cooperation here this week. And it is with this in mind that I will be talking with President Reagan in anticipation of the Versailles Summit next month.

Thank you.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE May 5, 1982

RESULTS OF AUCTION OF 10-YEAR TREASURY NOTES
AND SUMMARY RESULTS OF MAY FINANCING

The Department of the Treasury has accepted $4,001 million of $8,263 million of tenders received from the public for the 10-year Notes of Series B-1992 auctioned today. The notes will be issued May 17, 1982, and mature May 15, 1992.

The interest coupon rate on the notes will be 13-3/4%. The range of accepted competitive bids, and the corresponding prices at the 13-3/4% coupon rate are as follows:

	Bids	Prices
Lowest yield	13.73% 1/	100.107
Highest yield	13.80%	99.733
Average yield	13.77%	99.893

1/ Excepting 1 tender of $20,000.

Tenders at the high yield were allotted 51%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 21,312	$ 18,332
New York	6,524,966	3,179,928
Philadelphia	25,470	21,490
Cleveland	42,280	40,280
Richmond	73,965	39,045
Atlanta	42,838	30,368
Chicago	814,549	379,119
St. Louis	45,647	43,132
Minneapolis	22,980	22,341
Kansas City	31,573	30,073
Dallas	16,704	14,704
San Francisco	598,861	181,041
Treasury	1,483	1,483
Totals	$8,262,628	$4,001,336

The $4,001 million of accepted tenders includes $ 919 million of noncompetitive tenders and $ 3,082 million of competitive tenders from private investors.

In addition to the $4,001 million of tenders accepted in the auction process, $941 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

SUMMARY RESULTS OF MAY FINANCING

Through the sale of the two issues offered in the May financing, the Treasury raised approximately $ 2.9 billion of new money and refunded $ 8.9 billion of securities maturing May 15, 1982. The following table summarizes the results:

	New Issues				
	14-1/8% Notes 5/15/85	13-3/4% Notes 5/15/92	Total	Maturing Securities Held	Net New Money Raised
Public..................	$ 5.3	$ 4.0	$ 9.3	$ 6.4	$ 2.9
Government Accounts and Federal Reserve Banks	1.6	0.9	2.5	2.5	--
TOTAL..................	$ 6.9	$ 4.9	$ 11.8	$ 8.9	$ 2.9

Details may not add to total due to rounding.

R-765

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
Thursday, May 6, 1982

Statement by
Donald T. Regan
On Senate Budget Committee Approval of a
Compromise Budget Plan
Washington, D.C.
Thursday, May 6, 1982

The Senate Budget Committee last night adopted a new budget plan for Fiscal years 1983, 1984 and 1985 that puts the nation on a course of deficit reduction -- a course supported by the Administration and one which should be welcome news to the financial markets. We are committed to taking budgetary steps that will lower deficits and protect the incentives for saving and investment in the President's Economic Recovery Program. The Budget Committee's plan accommodates both objectives.

Although the plan envisions $95 billion in new tax revenues over three years, it would protect all of the major provisions of the President's tax program, including the 5-10-10 personal tax cuts and indexing. I believe the economy is on the verge of recovery. It is crucial that we maintain investment incentives that will hasten recovery and lead to sustained economic growth. We look forward to working with the Senate Finance and House Ways and Means Committees as they consider this plan.

R-766

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Release Upon Delivery
Expected at 9 A.M. E.D.T.
May 7, 1982

STATEMENT OF THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to present the views of the Treasury Department on the following bills: S. 2281, concerning the deduction for charitable contributions of computers and other scientific equipment and S. 1928, concerning the tax treatment of a portion of the settlement agreement of a contract dispute between Westinghouse and a number of utility companies.

I will now discuss the Treasury's specific views on both of these bills.

S. 2281
Charitable Contributions of Computers and Other Technological Equipment

Under current law, a corporation may deduct, within certain limitations, the amount of cash or other property contributed to qualified charitable organizations. In the case of contributions of inventory, the amount of the deduction is limited to the taxpayer's basis in such

property, which is the amount it cost the taxpayer to manufacture or produce the property in question. The total amount any corporation is permitted to deduct as a charitable contribution in any one taxable year is limited to 10 percent of the corporation's taxable income for such year, computed without the charitable deduction and with certain other adjustments. If the amount contributed exceeds this percentage of taxable income limitation, the excess may be carried forward and deducted over the five succeeding years, subject to the percentage of taxable income limitation in those years.

There are currently two exceptions to the general rule that the deduction for gifts of ordinary income property such as inventory is limited to the donor's basis in the property contributed. The first exception concerns corporate gifts of inventory to be used for the care of the ill, the needy, or infants. The second exception involves corporate gifts of scientific equipment and apparatus to colleges and universities for research and experimentation. In both cases, the amount of the deduction is equal to the taxpayer's basis in the property plus one-half of the unrealized appreciation, not to exceed twice the taxpayer's basis in such property.

S. 2281 would allow corporations (other than Subchapter S corporations, personal holding companies or certain service companies) larger deductions than under current law for charitable contributions of computers or other "sophisticated technological equipment or apparatus" which is of an inventory nature if such equipment is contributed to primary, middle or secondary schools for use in educating students. Only contributions made within one year of the date of enactment of S. 2281 would qualify. If all the conditions of the bill are satisfied, the amount of the allowable deduction will be the sum of the taxpayer's basis in the property plus one-half the unrealized appreciation in such property. However, in no event would the deduction exceed twice the taxpayer's basis in the property contributed. The bill would also permit a corporation to deduct up to 30 percent of its taxable income for contributions of such property. We understand that an amendment to S. 2281 is under consideration which would increase the limitation on carryforwards to 30 percent as well.

S. 2281 thus could double the deduction otherwise allowable for gifts of inventory property and could triple the amount of such deductions allowable for any one year. Treasury is strongly opposed to S. 2281.

We recognize that the end result of having computers in every school may be highly desirable. Nevertheless, if this bill were enacted, the government would be funding a computer education program through the tax system. In other words, S. 2281 allocates resources to a particular form of education at a time of general fiscal restraint, without competing against other worthy programs for scarce resources.

In many cases, the value of the tax benefit conferred will approximately equal the taxpayer's cost of the equipment. For example, if it cost the taxpayer $1,000 to produce equipment which he can sell for $3,000, he will be entitled to a deduction of $2,000. This produces a tax benefit of approximately $1,000, and the government would in effect be purchasing the equipment for cost.

Moreover, the individual taxpayer would determine the recipients of the equipment. The bill, as drafted, does not provide the government any right to oversee this program or any remedy if it is not administered in accordance with governmental policy. Although we assume it is not the intent of the proponents of this bill, a computer manufacturer could hardly be faulted if it placed its computers in schools whose students come from families which would be most likely to have the financial resources to purchase similar equipment for home use. Yet a federal outlay program targeted at these same relatively well-off families would hardly meet with Congressional approval.

Additional potential for abuse lies in the difficulty of administering this program. The amount of the permissable deduction depends upon the fair market value of the donated equipment. This might be difficult to determine if the donated product is not selling well in the current economic climate. Moreover, it is not clear, particularly in areas of high technology, whether the costs included in the inventory to be contributed (which costs will determine the amount of the deduction) might not significantly exceed the marginal costs of producing the individual units contributed.

Further, we believe there are sound policy reasons behind the general rule that the deduction for gifts of ordinary income property should be limited to a taxpayer's basis in such property. This general rule produces the same tax benefit to the donor as if he sold the property for its full value and simply gave the cash proceeds to charity. This tax benefit is substantial. Absent this rule, most if not all of the economic consequences of making the gift could

be born by the Government. In fact, absent the rule, gifts of ordinary income property could be made at virtually no cost to the taxpayer -- the tax benefit could almost equal the proceeds (net of taxes) which could be realized from the sale of the property. In such a case, there would be virtually no charity in charitable giving.

Although S. 2281 does not go so far as to cause taxpayers to be indifferent between giving inventory to schools rather than selling it, it greatly reduces the economic distinction between the two transactions, and thus runs counter to the policy of requiring donors to bear a significant portion of the cost of charitable giving. Under S. 2281, there is very little charity left in giving qualified property to schools.

We realize that current law provides exceptions to the general limitation on deductions for charitable gifts of ordinary income property in the case of contributions of inventory items such as food, drugs and medical equipment to certain charities, and in the case of gifts of certain scientific equipment to colleges and universities. We also realize that primary and secondary school children would benefit as much from the use of such equipment as would college students. However, it is difficult to argue that students would not benefit as much from gifts of books, athletic equipment, maps, recording equipment and other educationally beneficial equipment as they would from gifts of computers.

If Congress wishes to reconsider the positions taken in the Tax Reform Act of 1969, it should do so for all similarly situated taxpayers. The more exceptions that are made the more difficult it becomes to rationalize different treatment for different taxpayers. We see no reason why the gift of computers to schools should be given better treatment than the gift of books to educational institutions.

For the reasons previously discussed, we believe that the general principle of section 170(e) is valid and should not be eroded by additional special exceptions.

Treasury also objects to the proposal in S. 2281 to increase the maximum amount allowable as a deduction in any one year from 10 percent to 30 percent of the donor's taxable income. By increasing the maximum allowable deduction, S. 2281 would permit a favored corporation to obtain 3 times the benefit from its contributions of computers or other

sophisticated technological equipment than could be obtained by a corporation donating cash or other types of property for such worthy causes as cancer research. We question whether the donation of computers is more desirable than other types of charitable gifts, and we strongly object to creating this special exception to the maximum limitation.

The existing limitation on the maximum allowable charitable contributions deduction for corporations is based on sound policy grounds including the need to protect Federal revenues and to place a reasonable limit on the ability of corporations and their shareholders to divert potential tax revenues away from the Federal Government and to the particular activities they favor. The Economic Recovery Tax Act increased the limitation from 5 percent to 10 percent of a corporation's income, and we believe that the present limitation is appropriate.

Further, S. 2281 would only apply to gifts made within a one year period. While the purpose of this time limitation may be to provide for a limited exception to the general rule in an effort to encourage taxpayers to make qualifying gifts to schools while limiting the revenue loss from this exception, it is doubtful that many in the computer industry will be able to take advantage of this provision. We understand that, in general, the computer industry does not carry large inventories because rapid advances in technology often make current models obsolete. Taxpayers who are backlogged on orders would be unable to take advantage of the provision. Thus, those companies that could take advantage of the provision would have a significant competitive advantage. We understand that proponents of this bill are considering an amendment which would qualify gifts made between February, 1983 and February, 1984 in order to provide other companies an opportunity to increase production to take advantage of the legislation. However, we question whether many other companies will be able to do so.

The competitive considerations motivating the intended beneficiaries of the bill also present significant tax policy concerns. The case law is replete with examples of taxpayers whose charitable contributions have been limited in whole or in part because of some indirect benefit flowing to the taxpayer from the gift. We realize that it is difficult to apply this indirect benefit test to corporations which may expect to benefit from the goodwill generated by their charitable gifts. However, there is potentially more than goodwill to be derived from this provision by those companies

that can take advantage of it. The companies that supply equipment to schools can at least expect service contracts for that equipment and at best can anticipate future sales from schools and students' families. We question whether this is the sort of detached and disinterested generosity that the charitable contribution deduction is intended to reward.

In summary, Treasury opposes S. 2281 because it further erodes the general principle of the 1969 Act that deductions for gifts of inventory should be limited to the donor's basis in that inventory, and it does so in a narrow fashion that benefits only one particular industry. It goes further than current exceptions to the general principle in increasing the percentage limitation for qualifying corporations. S. 2281 is likely to benefit only a very few taxpayers who, far from exhibiting the generosity typically associated with charitable giving hope to reap substantial commercial rewards from their gifts as well as the tax benefits made available by this provision.

S. 1928

Tax Treatment of Westinghouse Uranium Contract Damage Payments

S. 1928 provides that no discounts or other forms of price reductions on any property or services received by taxpayers in settlement of certain contract disputes with Westinghouse Electric Corporation shall be included in gross income, but shall reduce the basis of the property or cost of services to which they relate. Treasury opposes S. 1928.

The facts leading up to S. 1928 as we understand them are as follows:

A number of utilities entered into supply contracts with Westinghouse in the early 1970's. In 1975, Westinghouse informed the utilities that it would not perform under the contract. Its position was based on commercial impracticability since the price of uranium had increased fourfold. The utilities sued Westinghouse for breach of contract, and the Court found Westinghouse liable under the contracts. At the Court's urging, the utilities and Westinghouse entered into a settlement agreement under which Westinghouse is to provide the utilities with benefits in the following forms: (1) cash payments; (2) future discounts on uranium; (3) future discounts on other goods and services; and (4) a portion of any amount received by Westinghouse from its suit against an alleged uranium cartel.

From the time of Westinghouse's breach of contract and the date of settlement the utilities were forced to purchase cover uranium (that is uranium to replace what Westinghouse was obligated to deliver under its contract) at considerably higher prices than they would have had to pay under their original contract with Westinghouse.

One of the affected utilities submitted a ruling request to the Internal Revenue Service on the tax treatment of the settlement. The Service found that Westinghouse's failure to honor its uranium supply and fabrication contracts forced the taxpayer to acquire cover uranium and fabrication facilities from other sources. As a result, the taxpayer was entitled to recover from Westinghouse the difference between the cost of the cover uranium and facilities and the contract price.

The ruling held that cash payments and the rights to future discounts accrued to the taxpayer upon entering into the settlement agreement. However, because this agreement represented a reimbursement for the additional amounts the taxpayer paid to obtain cover uranium, the value of the cash and discounts would not be included in the taxpayer's gross income to the extent it could be applied to reduce the taxpayer's undepreciated basis in the excess cost portion of the cover uranium. The taxpayer would be required to recognize income to the extent the cash payments and discounts exceeded the excess cost of the cover uranium at the time of settlement.

S. 1928 is private relief legislation that would resolve the dispute between the utilities and the Internal Revenue Service in the utilities' favor. Under the bill, no utility would be required to include the value of any future discount in gross income, nor would any utility be required to reduce its basis in the cover uranium. Rather, the discounts would be taken into account by excluding the discounts from the utilities' basis in the goods or services acquired under the settlement agreements.

Treasury strongly opposes S. 1928. The appropriate income tax treatment of the Westinghouse settlement agreements depends upon the application of general tax principles to the particular facts of each utility's case. The resolution of such controversies is the function of the courts, which are equipped to ascertain the relevant facts and apply the established legal principles to them. We strongly believe that these disputes should not be addressed by the Congress through private relief legislation.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Release Upon Delivery
Expected at 9:00 a.m. EDT
May 7, 1982

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
AND THE SUBCOMMITTEE ON SAVINGS, PENSIONS, AND INVESTMENT POLICY
OF THE SENATE COMMITTEE ON FINANCE

Mr. Chairmen and Members of these Subcommittees:

I am pleased to present the views of the Treasury Department on S. 2214, which would provide a partial exclusion for net interest and dividend income and would eliminate certain consumer interest deductions.

Overview

Under current law, beginning in 1985 individuals will be allowed an exclusion of 15 percent of net interest received up to $3,000 of net interest for a single return or $6,000 for a joint return. The maximum exclusion thus will be $450 ($900 on a joint return) per year. Net interest is defined generally as eligible interest received by a taxpayer in excess of itemized interest deductions. However, mortgage interest and trade or business interest payments do not reduce the amount of interest receipts eligible for the exclusion. In addition, current law allows individuals to exclude 100 percent of the first $100 of dividends received ($200 on a joint return) per year.

S. 2214 would change the net interest exclusion in several ways, the principal of which are as follows: First, the maximum amount of net interest eligible for the exclusion would be reduced from $3,000 to $2,000 on a single return and from $6,000 to $4,000 on a joint return. Second, the rate of exclusion would be increased from 15 percent to 25 percent, except for taxable years beginning in 1982, in which the exclusion rate would be 12.5 percent. The maximum annual exclusion thus would be $500

($1,000 on a joint return) after 1982. Third, most dividends would be made eligible for the exclusion and the current $100/$200 dividend exclusion would be repealed.

In addition, by 1985 the bill would phase out the itemized deduction allowed for certain consumer interest. Interest paid on loans used to acquire or reconstruct a residence, to acquire an auto, to carry on trade, business or investment activity, or to pay for higher education expenses, would be deductible as under current law.

The sponsors of this bill should be commended for their forthright effort to tackle one of the most difficult questions in the area of taxation: the treatment of interest income and expense. The question is difficult from an economic and technical, as well as political, viewpoint.

At this point the Treasury has not formulated a final position with respect to S. 2214. As you well understand, our position on this as well as many other revenue issues will in a large sense depend upon the outcome of the current debate on the budget. Nonetheless, I believe that it would be useful to discuss some of Treasury's concerns with S. 2214 as it is currently drafted. Let me note at the outset that because of the particular phase-in approaches adopted in the bill, there are net revenue losses in the early years. These losses are not large in the context of the total bill, but, given our current budgetary concerns, they detract from the bill. Some simple changes in the timing of the proposed amendments could solve this problem.

The Net Interest Exclusion

We have some concerns regarding the changes in the net interest exclusion. The proposed reduction in the maximum amount of interest eligible for the exclusion would have the effect of reducing the savings incentives provided by current law. Unfortunately, the lower the cap placed upon any savings incentive, the smaller the likelihood that it will affect taxpayers at the margin. Indeed, in terms of savings incentive provided per dollar of revenue loss, an incentive with a higher cap is much more efficient than one with a lower cap. Lower caps inevitably result in a greater percentage of revenue loss going to taxpayers for whom there is no incentive whatsoever, that is, to taxpayers who have interest and dividends above the cap amount. Thus, for a married couple with interest income of $5,000, the net interest exclusion in existing law would provide an incentive (beginning in 1985) for the couple to divert earnings from consumption to savings; no such incentive would be provided by S. 2214.

There is an equally valid equity argument for not lowering the cap. An important purpose of the partial exclusion is to compensate for the inflationary component of interest (or dividend) income. Viewed in this light, taxpayers with larger

amounts of interest income are no less entitled to the exclusion. An income tax is meant to tax real income, and it is no more valid to overstate the real interest income of the wealthy than the nonwealthy, although a lower cap has just such an effect.

S. 2214 compensates for the reduction in the cap by increasing the rate of exclusion. While this formulation results in a net reduction in tax for all taxpayers, the bill nonetheless reduces the savings incentive impact provided (per dollar of revenue loss) by the current net interest exclusion that will take effect in 1985. Moreover, these changes in the partial exclusion, treated separately from the rest of the bill, are achieved only at a loss in revenue to Treasury.

To the extent that the bill is meant to be taken as a package, however, the above criticisms may be somewhat unfair. On the whole, the bill is certainly a net revenue raiser. Moreover, because the bill places limits on the deduction of consumer interest, the increase in the rate of exclusion for interest receipts may be viewed as compensation to many of those taxpayers who might face reductions in the amount of interest deductions that they could take. We take this to mean that the sponsors intend to send a message to taxpayers, a message which states that we need to direct more of our available gross savings into borrowing for investment rather than borrowing for consumption. As such, we wish to reward those who will increase their net savings and, at the same time, to reduce the subsidy to those who borrow from the stock of savings to finance their own consumption. This provides a more delicious main course, if you will, for those who will be forced to reduce their current consumption of dessert.

We question whether dividends should be made eligible for the net exclusion. We recognize that the bill does eliminate the $100/$200 dividend exclusion of current law, and that making dividends eligible for the new partial exclusion would compensate taxpayers to some extent for that change. Nevertheless, when the Administration first proposed a net interest exclusion last year, it deliberately left out dividends. In the Economic Recovery Tax Act of 1981, owners of dividend-paying stock were given tax reductions far more substantial than were given to owners of interest-bearing securities. The former group will benefit from accelerated cost recovery, while both groups will benefit from the rate reductions which apply to all realized capital income. Perhaps more importantly, the interest rate is far more sensitive to the rate of inflation than is the dividend rate. In the case of a corporation which maintains the real value of its assets, there is no basic reason why its dividend rate, expressed as a percentage of the value of those assets, would increase with expected inflation (except perhaps as an offset to the increased risk that individuals might feel in an inflationary environment). On the other hand, the interest rate must increase with expected inflation because the real value of the underlying asset decreases with inflation. Therefore, to the extent that a net

exclusion is meant to compensate for the inflationary component of the stated amount of income from capital, it is more appropriate to apply the exclusion to interest income than to dividend income.

Owners of dividend-paying stock, of course, face a double tax burden not faced by owners of interest-bearing assets. To some extent, then, applying an exclusion to dividends may be thought of as one way of integrating corporate and personal income taxes. However, the method is indirect and inexact because the amount of exclusion is in no way related to the amount of corporate tax paid.

Elimination of Deductions for Certain Consumer Interest

In our view, the most significant aspect of the bill is not in the alteration of the net interest exclusion, but rather in the elimination of itemized deductions for certain consumer interest. The following arguments have been made in favor of this type of change. In an inflationary economy, the overstatement of the real interest rate by the nominal interest rate not only results in an excess amount of interest receipts includable in income subject to tax, but also an excess amount of interest payments being deductible by taxpayers. If inflation is 10 percent and the interest rate is 15 percent, a borrower pays only 5 percent in real terms just as the lender only earns 5 percent. Even if the tax laws are going to subsidize borrowing, it may be appropriate to limit the subsidy for borrowing used to finance consumption. However, while this argument would call for a reduction in the proportion of such interest that could be deducted, it would not necessarily call for its elimination. The argument for its elimination comes from two sources.

First, there is a real need in our current economy to shift a greater portion of our resources into investment. In that regard, the bill would help direct gross savings into borrowing to finance investment rather than borrowing to finance consumption. Second, it is well recognized in tax theory that the implicit income or flow of services from consumer goods is not subject to tax if the goods are owned outright. On the other hand, the owner would be subject to tax on that income if the same goods were rented to consumers. Since the implicit income from owner-used consumer goods is not subject to tax, it may be inappropriate to allow deductions for the interest payments or other costs of owning the goods. (To illustrate: a landlord is allowed deductions for interest costs of owning real estate because he takes rental receipts into income; obviously, there is no parallel income inclusion with respect to consumer goods.)

In addition, consumer interest deductions are taken only on tax returns with itemized deductions. Itemizers represent only 34 percent of all returns and are generally in higher income brackets. Elimination of the tax subsidy for borrowing for consumption, therefore, would apply principally to a group of taxpayers who can most easily convert current consumption to current savings.

The Treasury Department believes that these economic arguments have merit. Our principal concern with the elimination of the deduction for certain consumer interest paid arises from the fungibility of money. As a general proposition, we think it is clear that the proposed change would be effective in directing gross savings into borrowing for investment rather than borrowing for consumption. However, some taxpayers could get around the rule simply by borrowing against their house, auto, or business. A rule should require that any borrowing against a house, auto or business be matched by a direct investment in such assets. However, even if a strict rule were imposed to trace deductible interest expenses to qualifying investments, such a rule could not prevent a person from borrowing against a business and then simply retaining a lower amount of taxable earnings in the business. The deductible business borrowing would replace non-deductible consumer borrowing. Similarly, it would be extremely difficult to limit deductions for taxpayers who reduce their equity in housing as they move from one house to another. This reduction in equity is financed by increased borrowing, which, although tied to the new house, really goes to finance other types of purchases or investments.

A related concern of ours is that the bill would complicate lending practices. For instance, financial institutions can offer accounts in which dollars borrowed for any purpose show up as charges against one account. If some interest were to be deductible, while some were not, these types of accounts might be required to separate completely loans for one purpose from loans for another. Although obviously complex, complete separation of loans is probably the only feasible way to identify not only the purpose of the loan, but also the extent to which each repayment goes to reduce the principle related to non-deductible loans versus deductible loans.

Such difficulties are of course present in other parts of tax law. Taxes are inherently distorting and taxpayers will always structure their financial dealings to obtain the best tax result. The question that remains is whether the problems created by partial elimination of the consumer interest deduction would outweigh the beneficial economic and revenue effects of the proposal. We look forward to working with these Subcommittees and their staffs on such proposals.

	Revenue Change ($billions)					
	Fiscal Year					
	82	83	84	85	86	87
Change in Net Interest Exclusion	*	-2.2	-3.1	-2.5	-0.7	-0.8
Change in Consumer Interest Deduction	*	1.1	2.7	4.2	5.8	6.4
Total................	*	-1.1	-0.5	1.7	5.1	5.5

*Less than $50 million.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 12:00 NOON

May 7, 1982

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $5,250 million, of 364-day Treasury bills to be dated May 20, 1982, and to mature May 19, 1983 (CUSIP No. 912794 CC 6). This issue will provide about $1,250 million new cash for the Treasury, as the maturing 52-week bill was originally issued in the amount of $4,014 million.

The bills will be issued for cash and in exchange for Treasury bills maturing May 20, 1982. In addition to the maturing 52-week bills, there are $9,771 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks as agents for foreign and international monetary authorities currently hold $1,824 million, and Federal Reserve Banks for their own account hold $3,013 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average price of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $205 million of the original 52-week issue.

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

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Thursday, May 13, 1982. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders, the price offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on May 20, 1982, in cash or other immediately-available funds or in Treasury bills maturing May 20, 1982. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Section 454(b) of the Internal Revenue Code, the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed, or otherwise disposed of. Section 1232(a)(4) provides that any gain on the sale or redemption of these bills that does not exceed the ratable share of the acquisition discount must be included in the Federal income tax return of the owner as ordinary income. The acquisition discount is the excess of the stated redemption price over the taxpayer's basis (cost) for the bill. The ratable share of this discount is determined by multiplying such discount by a fraction, the numerator of which is the number of days the taxpayer held the bill and the denominator of which is the number of days from the day following the taxpayer's date of purchase to the maturity of the bill. If the gain on the sale of a bill exceeds the taxpayer's ratable portion of the acquisition discount, the excess gain is treated as short-term capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

federal financing bank NEWS
WASHINGTON, D.C. 20220

Press inquiries: 202-566-2615

FOR IMMEDIATE RELEASE May 7, 1982

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of March 1982.

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies on March 31, 1982 totaled $113.6 billion, an increase of $1.2 billion over the February 28 level. FFB increased holdings of agency debt issues by $0.6 billion and holdings of agency guaranteed debt by $0.7 billion. FFB holdings of agency assets purchased decreased by $0.1 billion. A total of 221 disbursements were made during the month.

Attached to this release is a table outlining FFB loan activity during March, a table outlining new FFB commitments to lend and a table summarizing FFB holdings as of March 31, 1982.

0

R-770

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
ON-BUDGET AGENCY DEBT					
TENNESSEE VALLEY AUTHORITY					
Power Bond-1982-A	3/5	$700,000,000.00	4/30/12	13.565%	
#235	3/5	90,000,000.00	6/4/82	12.845%	
#236	3/12	70,000,000.00	6/4/82	13.331%	
#237	3/19	15,000,000.00	6/4/82	13.364%	
#238	3/31	25,000,000.00	6/4/82	14.014%	
EXPORT-IMPORT BANK					
#39	3/1	83,000,000.00	3/1/92	14.155%	13.913% qtr
#40	3/1	619,000,000.00	3/1/92	14.259%	14.014% qtr
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership	3/17	1,200,000,000.00	3/17/97	13.955%	14.442% ann
	3/17	340,000,000.00	3/17/02	13.895%	14.378% ann
RURAL ELECTRIFICATION ADMINISTRATION					
Certificate of Beneficial Ownership	3/31	288,400,000.00	3/31/12	13.935%	
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES					
Cameroon 3	3/2	296,005.14	9/22/86	14.221%	
Spain 5	3/2	371,112.50	6/15/91	14.116%	
El Salvador 1	3/3	68,500.00	6/2/90	14.041%	
El Salvador 2	3/3	1,069,315.56	12/2/90	14.028%	
El Salvador 3	3/3	387,063.85	4/15/93	13.946%	
El Salvador 4	3/3	15,213,171.51	12/5/93	13.931%	
Peru 5	3/3	1,969.68	3/15/86	14.146%	
Peru 6	3/3	3,414.20	1/15/87	14.019%	
Egypt 1	3/4	3,733,617.67	9/1/09	13.724%	
Egypt 1	3/9	3,066,972.00	9/1/09	13.760%	
Honduras 5	3/9	304,338.11	4/25/90	13.748%	
Honduras 6	3/9	74,110.57	4/25/91	13.751%	
Honduras 7	3/9	264,653.40	9/25/91	13.750%	
Israel 8	3/9	13,225,264.00	9/1/09	13.760%	
Jordan 6	3/9	1,853,018.66	9/21/92	13.759%	
Sudan 3	3/9	590,580.00	2/24/11	13.748%	
Thailand 9	3/9	1,600,000.00	9/15/93	13.755%	
Turkey 9	3/9	742,500.00	6/22/92	13.754%	
Zaire 1	3/9	922,090.01	9/22/92	13.759%	
Egypt 1	3/15	5,019,633.47	9/1/09	13.994%	
Philippines 7	3/15	807,058.67	9/10/87	14.277%	
Spain 3	3/15	116,848.00	9/25/89	14.221%	
Spain 4	3/15	2,340,217.16	4/25/90	14.207%	
Spain 5	3/15	21,393,442.67	6/15/91	14.193%	
Sudan 3	3/15	10,060,067.50	2/24/11	13.969%	
Sudan 4	3/15	14,769,526.98	2/10/12	13.953%	
Thailand 7	3/15	150,653.06	8/25/86	14.328%	
Turkey 11	3/15	515,938.90	12/22/10	13.971%	
Israel 8	3/16	712,937.00	9/1/09	13.922%	
Lebanon 2	3/16	605,978.00	4/15/86	14.391%	
Lebanon 3	3/16	1,863,109.00	7/25/87	14.342%	
Sudan 3	3/18	199,013.91	2/24/11	13.827%	
Dominican Republic 5	3/18	59,801.64	4/30/89	14.149%	
Egypt 1	3/18	6,285,736.23	9/1/09	13.856%	
Greece 13	3/18	147,799.32	9/22/90	14.120%	
Indonesia 7	3/18	1,130,792.60	3/20/90	14.132%	
Turkey 11	3/18	500,000.00	12/22/10	13.830%	
Greece 14	3/19	1,387,500.00	4/30/11	13.816%	
Israel 8	3/19	372,107.16	9/1/09	13.847%	
Thailand 8	3/19	1,300,000.00	8/10/90	14.102%	
Korea 14	3/22	7,375,476.54	6/30/93	14.115%	

FEDERAL FINANCING BANK

MARCH 1982 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES (Cont'd)					
Oman 4	3/22	2,031,034.51	5/10/89	14.225%	
Turkey 7	3/22	7,304,661.07	6/3/91	14.158%	
Israel 8	3/24	1,595,040.59	9/1/09	13.687%	
Turkey 8	3/25	446,247.53	6/15/10		
Peru 7	3/26	101,408.74	2/15/88	14.264%	
Dominican Republic 4	3/29	22,880.95	8/5/88	14.343%	
Egypt 1	3/29	485,116.00	9/1/09	14.004%	
Jordan 6	3/29	1,119,526.24	9/21/92	14.258%	
Spain 4	3/29	928,825.00	4/25/90	14.313%	
Spain 5	3/29	2,150,804.57	6/15/91	14.286%	
Turkey 8	3/30	367,756.78	6/15/10	14.135%	
DEPARTMENT OF ENERGY					
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #3	3/8	7,000,000.00	7/1/82	14.075%	
#4	3/15	6,000,000.00	7/1/82	14.495%	
#5	3/15	3,000,000.00	7/1/82	14.105%	
Synthetic Fuels Guarantees - Defense Production Act					
TOSCO #17	3/1	1,775,980.38	10/1/07	14.151%	
TOSCO #18	3/8	1,751,265.00	10/1/07	13.657%	
TOSCO #19	3/15	2,145,181.09	10/1/07	14.005%	
TOSCO #20	3/22	5,721,012.91	10/1/07	13.924%	
TOSCO #21	3/29	2,213,869.94	10/1/07	14.027%	
GENERAL SERVICES ADMINISTRATION					
Series M-083	3/8	117,370.00	7/31/03	13.690%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant Guarantees					
Superior, Wisconsin	3/4	500,000.00	7/1/82	13.695%	
Washington County, Pennsylvania	3/5	78,608.70	9/15/82	13.505%	13.552% ann
Lawrence, Massachusetts	3/10	380,000.00	1/1/83	13.635%	14.100% ann
Buffalo, New York	3/12	75,000.00	8/1/02	14.023%	14.515% ann
Sioux Falls, South Dakota	3/17	20,000.00	5/3/82	13.418%	
Niagara Falls Urban Renewal Ag.	3/28	127,825.00	7/1/02	13.930%	14.415% ann
Columbia, South Carolina	3/29	500,000.00	9/1/83	14.405%	14.924% ann
Public Housing Notes					
Sale #19	3/11	99,861,631.81	various	13.646%	14.112% ann
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	3/22	6,845,000.00	10/1/92	14.111%	14.609% ann
RURAL ELECTRIFICATION ADMINISTRATION					
*Arkansas Electric #97	3/1	9,612,000.00	3/1/84	14.565%	14.309% qtr
*South Mississippi Electric #90	3/1	709,000.00	3/1/84	14.565%	14.309% qtr
*Basin Electric #87	3/1	30,000,000.00	3/1/85	14.565%	14.309% qtr
*Basin Electric #87	3/1	282,000.00	3/1/85	14.565%	14.309% qtr
Kamo Electric #209	3/1	4,200,000.00	3/1/84	14.565%	14.309% qtr
United Power #139	3/1	3,650,000.00	3/1/84	14.565%	14.309% qtr
Arkansas Electric #142	3/1	10,695,000.00	3/1/84	14.565%	14.309% qtr
Seminole Electric #141	3/1	4,216,000.00	3/1/84	14.565%	14.309% qtr
South Mississippi Electric #171	3/1	1,000,000.00	3/2/84	14.565%	14.309% qtr
Saluda River Electric #186	3/1	2,565,000.00	3/1/84	14.565%	14.309% qtr
*Buckeye Power #153	3/1	15,906,000.00	3/1/84	14.565%	14.309% qtr
*East Ascension Telephone #39	3/1	300,000.00	12/31/10	14.066%	13.827% qtr
Florence Telephone #40	3/2	444,000.00	12/31/16	13.801%	13.571% qtr
Sunflower Electric #174	3/4	42,300,000.00	3/4/84	14.215%	13.971% qtr

*Maturity Extension

MARCH 1982 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
*Soyland Power #105	3/4	9,554,000.00	3/4/84	14.125%	13.971% qtr
*Brazos Electric #144	3/5	893,000.00	3/5/84	14.025%	13.787% qtr
Deseret G & T #211	3/5	11,263,000.00	3/12/84	14.025%	13.787% qtr
*East Ascension Telephone #39	3/8	450,000.00	3/8/84	13.915%	13.681% qtr
*Wolverine Electric #100	3/10	1,101,000.00	3/10/84	14.055%	13.816% qtr
*Wabash Valley Power #104	3/10	5,530,000.00	3/10/84	14.055%	13.816% qtr
Northern Michigan Electric #101	3/10	40,000.00	3/10/84	14.055%	13.816% qtr
Northern Michigan Electric #183	3/10	4,362,000.00	3/10/84	14.055%	13.816% qtr
Wolverine Electric #182	3/10	3,420,000.00	3/10/84	14.055%	13.816% qtr
Brazos Electric #144	3/10	4,165,000.00	3/10/84	14.055%	13.816% qtr
Allegheny Electric #175	3/10	4,933,000.00	3/31/84	14.055%	13.807% qtr
Wabash Valley Power #104	3/10	7,021,000.00	3/10/84	14.055%	13.807% qtr
Wabash Valley Power #206	3/10	524,000.00	3/10/84	14.055%	13.807% qtr
Wabash Valley Power #200	3/10	82,000.00	12/31/16	13.604%	13.380% qtr
Cajun Electric #197	3/11	40,000,000.00	3/11/84	14.095%	13.855% qtr
Deseret G & T #170	3/12	193,000.00	3/17/84	14.375%	14.126% qtr
*Northern Michigan Electric #101	3/12	1,073,000.00	3/12/84	14.375%	14.126% qtr
*Dairyland Power #54	3/12	2,100,000.00	3/12/84	14.375%	14.126% qtr
*Continental Tele.(KY.) #115	3/13	3,000,000.00	3/13/84	14.475%	14.222% qtr
St. Joseph Tele & Telegraph #13	3/13	438,163.00	3/13/84	14.475%	14.222% qtr
*Western Illinois Power #99	3/14	2,245,000.00	3/14/84	14.475%	14.222% qtr
East Kentucky Power #188	3/15	9,307,000.00	3/15/84	14.475%	14.222% qtr
Alabama Electric #26	3/15	3,260,000.00	3/15/84	14.475%	14.222% qtr
Colorado Ute Electric #203	3/15	1,030,000.00	3/15/84	14.475%	14.222% qtr
North East Missouri Elect. #217	3/15	2,009,000.00	3/15/84	14.475%	14.222% qtr
New Hampshire Electric #192	3/15	15,815,000.00	3/15/84	14.475%	14.222% qtr
West Virginia Telephone #17	3/15	32,000.00	3/15/84	14.475%	14.222% qtr
Cooperative Power #156	3/15	1,950,000.00	3/15/85	14.333%	14.087% qtr
*Cajun Electric #76	3/16	56,000,000.00	3/16/85	14.395%	14.145% qtr
Hoosier Energy #107	3/16	36,000,000.00	12/31/16	13.732%	13.504% qtr
Hoosier Energy #202	3/16	9,000,000.00	12/31/16	13.732%	13.504% qtr
Sierra Telephone #59	3/18	15,000.00	3/18/84	14.275%	14.029% qtr
Oglethorpe Power #74	3/18	31,375,000.00	3/18/84	14.275%	14.029% qtr
Oglethorpe Power #150	3/18	21,153,000.00	3/18/84	14.275%	14.029% qtr
*Basin Electric #137	3/18	50,000,000.00	3/18/84	24.275%	14.029% qtr
Dairyland Power #54	3/19	2,011,000.00	3/19/84	14.365%	14.116% qtr
Seminole Electric #141	3/19	4,586,000.00	3/19/84	14.365%	14.116% qtr
Allied Tele. of Arkansas #15	3/19	2,255,066.00	12/31/16	13.677%	13.451% qtr
*Big Rivers Electric #58	3/20	738,000.00	3/20/84	14.475%	14.222% qtr
*Big Rivers Electric #91	3/20	2,415,000.00	3/20/84	14.475%	14.222% qtr
*Big Rivers Electric #136	3/20	193,000.00	3/20/84	14.475%	14.222% qtr
Colorado Ute Electric #168	3/22	18,428,000.00	3/22/84	14.475%	14.222% qtr
Western Farmers Electric #64	3/22	480,000.00	3/22/84	14.475%	14.222% qtr
Western Farmers Electric #133	3/22	120,000.00	3/22/84	14.475%	14.222% qtr
Western Farmers Electric #220	3/22	12,000,000.00	3/22/84	14.475%	14.222% qtr
Big Rivers Electric #58	3/22	764,000.00	3/22/84	14.475%	14.222% qtr
Big Rivers Electric #91	3/22	1,483,000.00	3/22/84	14.475%	14.222% qtr
Big Rivers Electric #136	3/22	16,000.00	3/22/84	14.475%	14.222% qtr
Big Rivers Electric #143	3/22	367,000.00	3/22/84	14.475%	14.222% qtr
Big Rivers Electric #179	3/22	608,000.00	3/22/84	14.475%	14.222% qtr
East Kentucky Power #140	3/22	530,000.00	3/22/84	14.475%	14.222% qtr
Mid-Carolina Telephone #223	3/24	3,509,000.00	12/31/16	13.522%	13.301% qtr
Cont. Tele of the West #194	3/25	1,000,000.00	12/31/16	13.678%	13.452% qtr
Colorado Ute Electric #96	3/26	474,000.00	3/26/84	14.365%	14.116% qtr
*Brazos Electric #144	3/26	402,000.00	3/26/84	14.365%	14.116% qtr
*Brazos Electric #108	3/26	1,864,000.00	3/26/84	14.365%	14.116% qtr
*Basin Electric #88	3/27	1,723,000.00	3/27/85	14.445%	14.193% qtr
Sugar Land Telephone #69	3/29	700,000.00	3/29/84	14.475%	14.222% qtr
*Southern Illinois Power #38	3/29	355,000.00	3/29/84	14.475%	14.222% qtr
Deseret G&T #211	3/30	12,074,000.00	4/1/84	14.655%	14.396% qtr
Big Rivers Electric #87	3/31	20,000,000.00	9/6/84	14.715%	14.454% qtr
Big Rivers Electric #87	3/31	20,000,000.00	9/20/84	14.705%	14.444% qtr
Big Rivers Electric #179	3/31	9,083,000.00	3/31/84	14.755%	14.492% qtr
Saluda River Electric #186	3/31	7,042,000.00	3/31/84	14.755%	14.492% qtr
Northern Michigan Electric #191	3/31	5,878,000.00	3/31/84	14.755%	14.492% qtr
North Carolina Electric #185	3/31	20,247,000.00	3/31/84	14.755%	14.492% qtr
South Mississippi Electric #171	3/31	12,863,000.00	4/1/84	14.755%	14.492% qtr
Tri-State G & T #89	3/31	907,000.00	3/15/89	14.465%	14.213% qtr

*Maturity Extension

FEDERAL FINANCING BANK

MARCH 1982 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
Tri-State G&T #89	3/31	$907,000.00	3/15/89	14.465%	14.212% qtr
Tri-State G&T #177	3/31	457,000.00	3/15/89	14.465%	14.213% qtr
Tri-State G&T #199	3/31	237,000.00	3/15/89	14.465%	14.213% qtr
Plains Electric G&T #158	3/31	7,464,000.00	3/31/89	14.465%	14.213% qtr
*Southern Illinois Power #38	3/31	3,260,000.00	3/31/84	14.755%	14.492% qtr
*Sierra Telephone #59	3/31	92,000.00	3/31/84	14.755%	14.492% qtr
*Big Rivers Electric #91	3/31	2,125,000.00	3/31/84	14.755%	14.492% qtr
*Wolverine Electric #100	3/31	2,051,000.00	3/31/84	14.755%	14.492% qtr
*Sierra Telephone #59	3/31	220,000.00	2/21/85	14.655%	14.396% qtr
*Allegheny Electric #93	3/31	603,000.00	3/31/85	14.635%	14.377% qtr
*Basin Electric #87	3/31	24,644,000.00	3/31/85	14.635%	14.377% qtr
*Wabash Valley Power #104	3/31	2,365,000.00	12/31/14	13.998%	13.761% qtr
Wolverine Electric #182	3/31	4,870,000.00	3/31/84	14.755%	14.492% qtr
Allegheny Electric #175	3/31	9,024,000.00	3/31/84	14.755%	14.492% qtr
New Hampshire Electric #192	3/31	428,000.00	3/31/84	14.755%	14.492% qtr
Basin Electric #87	3/31	957,000.00	3/31/84	14.755%	14.492% qtr
Wabash Valley Power #104	3/31	6,623,000.00	12/31/16	13.981%	13.745% qtr
Wabash Valley Power #206	3/31	371,000.00	12/31/16	13.981%	13.745% qtr
SMALL BUSINESS ADMINISTRATION					
Small Business Investment Companies					
Control Data Capital Corp.	3/24	1,000,000.00	3/1/85	14.215%	
First Interstate Capital Corp.	3/24	1,000,000.00	3/1/87	14.035%	
Frontenac Capital Corp.	3/24	1,000,000.00	3/1/87	14.035%	
J&D Capital Corp.	3/24	500,000.00	3/1/87	14.035%	
North Star Ventures, Inc.	3/24	1,000,000.00	3/1/87	14.035%	
Carolina Venture Capital Corp.	3/24	500,000.00	3/1/92	13.865%	
Cornell Capital Corp.	3/24	558,000.00	3/1/92	13.865%	
NIS Capital Corp.	3/24	500,000.00	3/1/92	13.865%	
Quidnet Capital Corp.	3/24	500,000.00	3/1/92	13.865%	
San Joaquin Capital Corp.	3/24	680,000.00	3/1/92	13.865%	
State & Local Development Companies					
San Diego County LDC	3/10	212,000.00	3/1/97	13.715%	
Iowa Business Growth Co.	3/10	165,000.00	3/1/97	13.715%	
City Wide Small Bus. Dev. Co.	3/10	133,000.00	3/1/97	13.715%	
The St. Louis LDC	3/10	111,000.00	3/1/97	13.715%	
Springfield SBA., Inc.	3/10	104,000.00	3/1/97	13.715%	
No. Maine Regional Planning Com.	3/10	104,000.00	3/1/97	13.715%	
San Antonio LDC, Inc.	3/10	51,000.00	3/1/97	13.715%	
San Diego County, LDC	3/10	51,000.00	3/1/97	13.715%	
The St. Louis LDC	3/10	41,000.00	3/1/97	13.715%	
San Antonio LDC, Inc.	3/10	29,000.00	3/1/97	13.715%	
Los Angeles LDC	3/10	368,000.00	3/1/02	13.699%	
Texas Capital Dev. Co., Inc.	3/10	338,000.00	3/1/02	13.699%	
Barren River Dev. Dist. Inc.	3/10	210,000.00	3/1/02	13.699%	
South Central Illinois RPDC	3/10	157,000.00	3/1/02	13.699%	
South Shore Economic Dev Corp.	3/10	133,000.00	3/1/02	13.699%	
Long Island LDC	3/10	125,000.00	3/1/02	13.699%	
San Antonio LDC	3/10	119,000.00	3/1/02	13.699%	
Union of Small Cities Corp.	3/10	99,000.00	3/1/02	13.699%	
South Shore LDC	3/10	97,000.00	3/1/02	13.699%	
Iowa Business Growth Co.	3/10	90,000.00	3/1/02	13.699%	
Long Island LDC	3/10	90,000.00	3/1/02	13.699%	
Iowa Business Growth Co.	3/10	78,000.00	3/1/02	13.699%	
No. Maine Regional Planning Com.	3/10	74,000.00	3/1/02	13.699%	
Brockton Regional Dev. Co.	3/10	53,000.00	3/1/02	13.699%	
Bay Colony Dev. Corp.	3/10	500,000.00	3/1/07	13.584%	
Tucson LDC	3/10	500,000.00	3/1/07	13.584%	
Los Medanos Funds Dev. Co.	3/10	380,000.00	3/1/07	13.584%	
Bay Colony Dev. Corp.	3/10	289,000.00	3/1/07	13.584%	
Washington, D.C. LDC	3/10	267,000.00	3/1/07	13.584%	
Evergreen Community Dev. Corp.	3/10	170,000.00	3/1/07	13.584%	
Texas Capital Dev. Corp.	3/10	53,000.00	3/1/07	13.584%	
The Cleveland Area DFC	3/10	39,000.00	3/1/07	13.584%	

*Maturity extension

MARCH 1982 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-82-6	3/31	$369,519,706.51	6/30/82	14.014%	

FEDERAL FINANCING BANK

March 1982 Commitments

BORROWER	AMOUNT	GUARANTOR	COMMITMENT EXPIRES	MATURITY
Columbia, S.C.	$500,000.00	HUD	9/1/83	9/1/83
Sioux Falls, S.D. #5	700,000.00	HUD	6/30/82	6/30/87
Korea #15	166,000,000.00	DOD	2/23/84	12/31/93

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	March 31, 1982	February 28, 1982	Net Change 3/1/82-3/31/82	Net Change 10/1/81-3/31/82
On-Budget Agency Debt				
Tennesee Valley Authority	$ 11,525.0	$ 11,460.0	$ 65.0	$ 651.0
Export-Import Bank	13,304.5	12,741.3	563.2	895.2
NCUA-Central Liquidity Facility	75.8	90.2	-14.5	-25.5
Off-Budget Agency Debt				
U.S. Postal Service	1,288.0	1,288.0	-0-	-0-
U.S. Railway Association	197.6	197.6	-0-	-17.3
Agency Assets				
Farmers Home Administration	48,681.0	49,081.0	-400.0	-140.0
DHHS-Health Maintenance Org.	124.2	124.2	-0-	7.9
DHHS-Medical Facilities	150.5	150.5	-0-	-0-
Overseas Private Investment Corp.	23.6	23.6	-0-	-3.1
Rural Electrification Admin.-CBO	2,883.7	2,595.3	288.4	288.4
Small Business Administration	62.3	62.9	-.6	-5.1
Government-Guaranteed Loans				
DOD-Foreign Military Sales	9,950.7	9,885.0	65.7	803.1
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	700.0
DOE-Defense Production Act (TOSCO)	73.0	59.4	13.6	73.0
DOE-Geothermal Loans	35.1	35.1	-0-	18.1
DOE-Hybrid Vehicles	2.2	2.2	-0-	0.1
DOE-Non-Nuclear Act (Great Plains)	81.0	65.0	16.0	81.0
DHUD-Community Dev. Block Grant	86.2	86.9	-.6	12.0
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	1,420.1	1,320.2	99.9	491.6
General Services Administration	411.5	411.4	.1	-1.1
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	29.6	29.6	-0-	-.3
NASA-Space Communications Co.	679.7	672.9	6.8	42.0
Rural Electrification Admin.	14,451.7	13,989.1	462.5	2,109.2
SBA-Small Business Investment Cos.	646.5	640.6	6.0	42.6
SBA-State/Local Development Cos.	23.8	18.6	5.2	18.6
TVA-Seven States Energy Corp.	1,090.1	1,064.5	25.6	176.0
DOT-Amtrak	835.9	835.9	-0-	56.0
DOT-Emergency Rail Svcs. Act	70.2	70.2	-0-	-0-
DOT-Title V, RRRR Act	117.8	119.6	-1.8	-5.8
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 113,567.8	$ 112,367.4	$ 1,200.5	$ 6,267.6

*figures may not total due to rounding

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

May 7, 1982

STATEMENT BY R. T. MCNAMAR, DEPUTY SECRETARY
OF THE TREASURY, FRIDAY, MAY 7, 1982
WASHINGTON, D. C.

The Federal Home Loan Bank Board Thursday voted to permit savings and loan associations to offer brokerage and investment advisory services. We believe the Bank Board adopted the wrong approach to expansion of securities services by S&L's and banks.

The Treasury Department has been responsible for developing the Reagan's Administration's legislation that would allow the Nation's commercial banks to engage in certain securities activities, but only through a separate subsidiary of a holding company owning the bank. The arrangement approved by the Bank Board instead permits S&L's to offer securities services through subsidiaries owned directly by the S&L's themselves. The Administration, in previous legislative hearings on its initiative, has stressed that expanded thrift lending powers are the first priority for the S&L's, and that securities activities could legally follow, through use of a holding company structure, as thrifts gain experience with these lending powers.

The Treasury Department believes that securities and other financial services should be offered only through a holding company subsidiary which is separate from the depository institution. This is to ensure that banks (or S&L's) are placed on an equal competitive basis with independent securities firms. If directly owned bank subsidiaries are permitted to offer

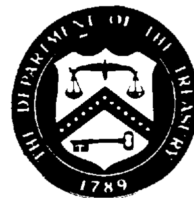
securities services, however, they would enjoy tax and cost of funds advantages over their non-bank competitors. Additionally, the increased risks of securities activities would fall upon the Federally-insured institutions (and thus the Federal depository insurance agencies) because of their direct investment in the securities subsidiaries.

Initially, the new securities activities authorized for the Administration's bank holding company subsidiaries would be underwriting and dealing in municipal revenue bonds and sponsoring money market mutual funds. In addition, the existing securities services, including brokerage now offered by banks, would be transferred to the holding company subsidiary. The Administration proposal exempts banks with less than $100 million in assets from its holding company subsidiary requirement, permitting them to own a securities affiliate directly.

The action of the Federal Home Loan Bank Board is evidence of the competitive pressures on all depository institutions from money market funds and other financial institutions offering bank-like services to the public. The Treasury Department believes, however, that Congress, rather than the regulatory agencies, should take up the issue of expanded securities services for all depository institutions so that a uniform structure may be developed.

oOo

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE May 10, 1982

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 4,701 million of 13-week bills and for $ 4,701 million of 26-week bills, both to be issued on May 13, 1982, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 12, 1982			:	26-week bills maturing November 12, 1982		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.917	12.196%	12.76%	:	93.798 a/	12.201%	13.19%
Low	96.896	12.280%	12.85%	:	93.775	12.246%	13.24%
Average	96.904	12.248%	12.81%	:	93.780	12.236% 2/	13.23%

a/ Excepting 2 tenders totaling $5,705,000.

Tenders at the low price for the 13-week bills were allotted 79%.
Tenders at the low price for the 26-week bills were allotted 83%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 60,055	$ 49,055	:	$ 100,020	$ 65,020
New York	11,221,795	3,113,695	:	12,116,585	3,570,565
Philadelphia	110,640	60,640	:	71,630	21,630
Cleveland	56,535	50,485	:	86,940	38,410
Richmond	50,800	46,155	:	44,095	43,595
Atlanta	65,610	59,610	:	64,280	47,280
Chicago	1,038,500	282,750	:	788,420	143,420
St. Louis	55,815	43,185	:	42,705	26,705
Minneapolis	22,320	22,320	:	27,295	13,295
Kansas City	55,100	55,100	:	40,750	40,620
Dallas	26,340	26,240	:	11,650	11,650
San Francisco	939,800	624,350	:	1,133,910	392,210
Treasury	267,530	267,530	:	286,370	286,370
TOTALS	$13,970,840	$4,701,115	:	$14,814,650	$4,700,770
Type					
Competitive	$11,339,765	$2,070,040	:	$12,167,035	$2,053,155
Noncompetitive	1,156,650	1,156,650	:	954,815	954,815
Subtotal, Public	$12,496,415	$3,226,690	:	$13,121,850	$3,007,970
Federal Reserve	1,195,625	1,195,625	:	950,000	950,000
Foreign Official Institutions	278,800	278,800	:	742,800	742,800
TOTALS	$13,970,840	$4,701,115	:	$14,814,650	$4,700,770

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 12.593%.

R-772

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY

ADDRESS BY
THE HONORABLE JOHN M. WALKER, JR.
ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)
U.S. TREASURY DEPARTMENT
BEFORE THE
39TH ANNUAL MEETING
OF THE
WINE AND SPIRITS WHOLESALERS OF AMERICA, INC.
IN
LAS VEGAS, NEVADA
ON
WEDNESDAY, MAY 5, 1982

I am pleased and honored to have been invited today to address this 39th Annual Meeting of the Wine and Spirits Wholesalers of America.

I believe this is a great opportunity because it gives me, as a representative of the Treasury Department and the Reagan Administration, a chance to speak to you directly, and, more importantly, to hear your concerns first hand.

I will be meeting soon with Abe Tunick and Doug Metz to discuss the positions you are taking at this convention. I might add that you are well represented in Washington by Abe and Doug.

In my first year in office, I have learned that your industry is complex and diverse in its makeup and that any Government action which affects your industry will have far-reaching implications and long term effects.

We are not always on the same sides of an issue, sometimes our disagreements are profound. Yet the Treasury Department and the wine and spirits industry have had an unusually close relationship over many years, longer than the lifetimes of many of us in this room.

I am reminded of a story about Winston Churchill. As we know, Mr. Churchill was quite a brandy drinker and had developed a formidable reputation for the large amounts of that distilled spirit that he consumed.

During World War II the Women's Temperance Union, upset by Mr. Churchill's habit, paid him a visit to try to persuade him to tone down his drinking a bit. The meeting was in the Cabinet Room at 10 Downing Street.

They reminded him that his brandy consumption over the years had been so great that if it were all to be poured into the room it would reach a point on the wall about four feet high. Furthermore, if he continued at his present pace, it would reach the eight foot mark by the time he was 80.

Churchill remarked: "Ah, dear ladies, so much to do and so little time to do it in."

Among the goals that I wish to achieve with respect to your industry during my tenure as Assistant Secretary are:

- high standards of quality maintenance for alcoholic beverage products;
- the integrity of labels protected from unscrupulous operators who would destroy the reputation of products among consumers;
- a robust export market for American distilled spirits, beer, and wine;
- the continuation of voluntary efforts by the members of the alcoholic beverage industry to provide useful information to the public on hazards of immoderate drinking in a rational, non-emotional context;
- reorganization of the Bureau of Alcohol, Tobacco and Firearms; and
- revision of the Federal Alcohol Administration Act.

Having stated these objectives, I want to discuss in more detail some of the issues pending between us.

Anti-Alcoholism Efforts/Health Warning Label

An area of agreement between us is our common belief that government and industry must continue to respond to concerns over the effects of immoderate drinking on pregnant women. We have worked together on this issue over the years and have so far been successful in promoting voluntary efforts of the industry to inform expectant mothers through the Beverage Alcohol Information Council.

The alcoholic beverage industry has and must continue to take this job seriously, because if it appears that industry efforts are not succeeding, there will be mounting pressure

for a so-called "health warning label" of the kind now required on cigarette packages and products containing saccharin. And Treasury will be required again to consider seriously the health warning label alternative.

Need to Expand Exports

Another area in which Treasury and the wine and spirits industry can work together is in the expansion of export sales. In calendar year 1971 the value of distilled spirits exports amounted to about $23 million. For 1981, it amounted to approximately $70 million. While this may be a nice increase in relative terms, in absolute terms, it is only an increase of $47 million in U.S. export sales of distilled spirits over an entire decade. And even this increase would be diminished if adjusted for inflation. Moreover, when exports of $70 million are seen against a background of total domestic industry sales of $19.3 billion! there really isn't much there to brag about.

During the same decade, foreign competitors have not been idle. U.S. imports of distilled spirits have increased from $621 million in 1971 to approximately $1.1 or $1.2 billion in 1981. The increase in imports, then, is 10 to 12 times the increase in exports.

We need to export more. This is an area in which we must work together. Government's task is to address the trade barriers which foreign countries erect to block the sale of U.S. alcoholic beverages - both tariff and non-tariff - particularly the latter. And this can be done. We won some significant concessions in previous consultations with the European Community on wine trade.

Unfortunately, in the fall of 1981, the United States had to postpone the U.S. - E.C. Wine Consultations because of the Bureau of Alcohol, Tobacco, and Firearms' (ATF) unsettled budgetary and organizational situation.

Because of other trade discussions presently pending before the Community and because the situation with ATF is yet to be definitively resolved we are hesitant to reschedule the Consultations at this time. The U.S., however, remains committed to completing the work of the Consultations and hopes to reschedule them soon. It is evident that the Community has attempted to be flexible and responsive to U.S. industry's needs and to reduce technical barriers to U.S. wine exports.

Clearly, the work of the United States in achieving the goal of free trade for alcoholic beverages will not end with these Consultations. As the President's recent report to the Congress on Foreign Tariff and Non-Tariff Barriers Affecting United States Exports of Alcoholic Beverages indicates, the barriers that the U.S. beverage industry face are extensive. The Treasury Department

would like to initiate technical consultations with other nations and address the full array of issues relating to alcoholic beverages. Treasury wants to work with these governments to harmonize regulatory practices and to reduce the non-tariff barriers affecting alcohol exports. We will need industry's advice and guidance in developing our goals and strategies, and eventually its support obtaining Congressional approval of the agreements. We are confident that we can make significant progress in achieving these goals.

But in the last analysis, the success of an alcoholic beverage export program depends upon the industry, not the Government. You must hold up your end. You must actively promote your products in promising markets, even though the initial returns may be low. I continually hear that overseas markets are not worthwhile because of low incomes, or because foreign palates have not developed a taste for our distilled spirits, or because in warm climates people prefer light, cool, refreshing drinks. I am not persuaded. In fact, per capita incomes in the industrialized countries of Europe and in Japan have long been high enough to make these markets promising, and incomes can be expected to rise in developing countries which are so successfully taking over many of the world's manufacturing jobs.

Future of ATF

Now let me turn to another matter of interest to the wine and spirits industry -- that of the Administration's plan to transfer the alcohol and tobacco revenue collection and regulatory functions and personnel of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Customs Service and the remaining firearms explosives and arson functions and personnel to the Secret Service.

We in the Treasury Department remain convinced that these two quite separate and distinct missions -- alcohol and tobacco regulation and revenue collection, on the one hand; and firearms enforcement on the other -- can be carried out not only at a substantially lower cost to the Government but, by separating and reassigning these two incompatible missions, with a considerable improvement in efficiency and effectiveness.

The transfer of ATF's special agents to the Secret Service will enhance the Service's ability to protect the President, the Vice President and other officials and at the same time enable us to intensify our efforts against criminal trafficking in firearms, and the other crimes of violence which fall under ATF's investigative jurisdiction.

The transfer of alcohol and tobacco functions to the Customs Service will benefit your industry. Your relationship with government will no longer be affected by interest groups

surrounding the firearms controversy unrelated to your industry. Your industry will be in the hands of an agency, the U.S. Customs Service, that is familiar with matters of commerce and trade and the alcohol regulatory function will be given high visibility within that agency -- at the Assistant Commissioner level if our plan is implemented. The responsibility of my office, at the Assistant Secretary level, will not be changed.

I was surprised when the industry representatives did not support the Treasury proposal, so clearly in the interests of your industry, this spring after it was clear that full funding for FAA Act enforcement would be provided. Not only did this seem to me to be counterproductive to your own interests, but also it tended to create unnecessary friction between your industry and this Administration. I would urge you to reconsider any opposition you might have to the Treasury proposal.

An alternative proposal, sponsored by Senator Laxalt, would transfer firearms, arson and explosives criminal enforcement to the Secret Service together with 1,200 agents and added support personnel leaving an independent bureau for alcohol and tobacco together with certain firearms regulatory functions. Treasury prefers its original plan but can support the Laxalt alternative.

I urge that the wine and spirits industry support the Treasury proposal or the Laxalt alternative when the occasion arises. Either plan will benefit law enforcement, efficient government and your industry.

FAA Act Amendments

For some time now my staff and representatives of your industry have been discussing a draft bill to revise the FAA Act. We intend to submit this bill to Congress in the near future. It is presently in its eighth draft. As I promised last January, I have recently sent this draft to the industry, including the Wine and Spirits Wholesalers, for comment. We need your views on this most recent draft. Although we have not yet circulated this draft bill to other departments for comment through the OMB legislative clearance process, it is my view that the role of the Federal Government in the alcoholic beverage industry, like other industries, ought to be strictly circumscribed.

Let me describe briefly some of the principal changes we are considering with the caveat that we have not yet had an opportunity to discuss these changes within the Administration and to get the approval of other interested agencies.

Penalty System

First, the current system of sanctions, consisting of threats of misdemeanor prosecution, offers in compromise, and threats of suspension or revocation of permits, does not afford us a system of graduated, flexible penalties for violations of the law.

It is simply not practical for us to undertake a criminal prosecution for each and every violation of the law, no matter how minor, nor is it practical in most cases to suspend, even for a short time, permits to operate. Not only are these penalties cumbersome to administer, but each has an effect that lasts long after the practices which gave rise to the penalty action are corrected. In one case, you are left with the stigma of having been criminally prosecuted, and perhaps convicted for a minor transgression, by the Federal Government; in the other case, you have hanging over your head, indefinitely, the possibility of permit revocation. Although the possibility of permit revocation is extremely remote, nevertheless, it is sufficiently frightening to prospective lenders that it may impair your ability to borrow money.

We would propose to eliminate the provisions of law which authorize permit suspension or revocation. Present qualification requirements would continue as before, but once issued the permit could not be revoked except where it was the result of a fraudulent application or no operations were conducted for two years.

In place of permit suspension and revocation, we would envision a system of administrative penalties, with an opportunity given you for administrative appeal, and access to the Federal courts if necessary. A system like this has been in place in the U.S. Customs Service for many years and has proven to be fair, flexible and efficient.

Deregulation

Another proposed change I would like to highlight is in the controversial trade practice area. First, we want to reduce substantially the range of business practices prohibited by the FAA Act. Secondly, we want to eliminate present uncertainties over whether a particular business practice violates the law.

Of course, I am aware that there are differences between alcoholic beverages and other consumer products:

- they are sensitive and, when abused, dangerous products;

- they are regulated or controlled by the states often in different ways; and

- retail outlets are often restricted in a given community.

Alcoholic beverages cannot be marketed like soft drinks.

But I also strongly believe that the result of many of the Act's prohibitions and restrictions on trade practices is to prevent or restrain normal competition as to marketing of alcoholic beverages. These prohibitions were conceived in the 1930's. They were targeted at practices which dated back to the turn of the century when the cultural and business climates of this country were vastly different. They go far beyond what is necessary to prevent predatory competition or formation of a monopoly. They also prevent activities which are normal business practices today, such as sales contests, joint promotional campaigns, and other more sophisticated marketing techniques -- activities which are in no sense sinister or harmful to the public interest.

Finally, there is one other change we have incorporated into our most recent draft -- a change which was recommended to us by the National Beer Wholesalers Association. This would provide for a right of action by private parties who can show that they have suffered economic injury as a result of their competitors having violated the FAA Act. This would be similar to the private right of action presently available to injured parties under the anti-trust laws. As you are aware, injured competitors may sue for three times the damages suffered under the anti-trust laws.

We are favorably disposed toward this idea. It is consistent with the proposal Secretary Regan made to representatives of the alcoholic beverage industry in late October when he suggested that you consider a greater degree of self-regulation. It also recognizes that the budget limitations in future years may restrict the extent to which Treasury can enforce the FAA Act. If the law can be written to discourage nuisance suits, as we have attempted to do, by providing the awarding of attorney's fees to the prevailing party, the right to private action would greatly enhance our joint effort, yours and ours, to ensure that there is an orderly and competitive market for alcoholic beverages in this country.

Let me close by thanking you for having me here today. I look forward to working with you in the future. You will always find an open door at Treasury when you have problems on which we can be helpful. Our discussions must always be candid. We each must clearly know each other's views. Only in this way can real progress be made.

Thank you very much.

FOR IMMEDIATE RELEASE MAY 10, 1982

The Treasury announced today that the 2-1/2 year Treasury yield curve rate for the five business days ending May 10, 1982, averaged 13.85 % rounded to the nearest five basis points. Ceiling rates based on this rate will be in effect from Tuesday, May 11, 1982 through Monday, May 24, 1982.

Detailed rules as to the use of this rate in establishing the ceiling rates for small saver certificates were published in the Federal Register on July 17, 1981.

Small saver ceiling rates and related information is available from the DIDC on a recorded telephone message. The phone number is (202)566-3734.

Approved ____________________
Francis X. Cavanaugh
Acting Director
Office of Market Analysis
& Agency Finance

JRO 5/10/82

TREASURY NEWS

epartment of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
May 10, 1982

CONTACT: Mary Boswell Watkins

SECRETARY REGAN ANNOUNCES PROPOSALS TO ASSIST THRIFT INDUSTRY

Treasury Secretary Donald T. Regan announced today that the Administration has approved three legislative proposals designed to assist the ailing thrift industry.

"This Administration recognizes the important function of our nation's thrift industry and is deeply concerned with its current problems," Secretary Regan said. "We have been studying these problems in the Cabinet Council on Economic Affairs and have designed three proposals which will significantly aid the thrift industry at a minimal cost to the Federal Government. These proposals will help the thrifts to cope with temporarily adverse market conditions. They will also contribute to the development of a strong and competitive framework that will give our thrift institutions the flexibility to respond to a changing financial environment and shifting market forces for years to come. We believe that these proposals and the prospect for an improved economic environment resulting from the President's Economic Recovery Program will ensure the soundness of the thrift industry," he said.

"A strong thrift industry is essential to the long-term financing of housing," the Secretary said. "These initiatives would enable thrifts to supply loans which would help the housing industry endure this period of recession and high interest rates."

The Administration's proposals are as follows:

1. Income Capital Certificate Program. Eligible thrift institutions with declining net worth would be authorized to issue "Income Capital Certificates" (ICCs) to the Federal Deposit Insurance Corporation (FDIC) for mutual savings banks or to the Federal Savings and Loan Insurance Corporation (FSLIC) for savings and loan associations. In return, the FDIC/FSLIC would issue promissory notes to the thrifts. No cash would be involved except for interest on

the ICCs and the promissory notes. The ICCs would bolster the net worth of thrift institutions, thereby giving them "breathing room" while interest rates are excessively high. When interest rates return to more normal levels and the thrifts return to profitability, the FDIC/FSLIC promissory notes held by the thrifts and the ICCs held by the FDIC/FSLIC would be mutually cancelled.

2. <u>Expanding thrift institution asset and liability powers</u>. Thrift institutions would be provided with increased lending and investment powers giving them greater flexibility to operate profitably. These new powers are critical to a restructuring of the industry which will enable it to avoid in the future the kind of earnings and net worth problems it is currently experiencing.

3. <u>An authorization for the depository institutions' regulators to approve interstate and interindustry mergers of troubled institutions.</u> The regulators would be given increased ability to find a larger number of depository institutions willing to acquire or merge with troubled thrifts, thereby reducing the cost of assistance that the Federal deposit insurance agencies must provide to induce mergers where few bidders are available.

The expansion of asset and liability powers and the authorization of interstate and interindustry mergers are contained in S. 1720, a bill now before the Senate Banking Committee, and in H.R. 4724, which is before the House Banking Committee.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. May 11, 1982

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 9,800 million, to be issued May 20, 1982. This offering will provide $ 25 million of new cash for the Treasury, as the maturing bills were originally issued in the amount of $ 9,771 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 4,900 million, representing an additional amount of bills dated February 18, 1982, and to mature August 19, 1982 (CUSIP No. 912794 BH 6), currently outstanding in the amount of $ 5,047 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 4,900 million, to be dated May 20, 1982, and to mature November 18, 1982 (CUSIP No. 912794 BT 0).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing May 20, 1982. In addition to the maturing 13-week and 26-week bills, there are $ 4,014 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Federal Reserve Banks, as agents for foreign and international monetary authorities, currently hold $ 1,841 million, and Federal Reserve Banks for their own account hold $ 2,993 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills.

Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average prices of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $ 1,636 million of the original 13-week and 26-week issues.

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

R-775

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, May 17, 1982. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on May 20, 1982, in cash or other immediately-available funds or in Treasury bills maturing May 20, 1982. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Section 454(b) of the Internal Revenue Code, the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed, or otherwise disposed of. Section 1232(a)(4) provides that any gain on the sale or redemption of these bills that does not exceed the ratable share of the acquisition discount must be included in the Federal income tax return of the owner as ordinary income. The acquisition discount is the excess of the stated redemption price over the taxpayer's basis (cost) for the bill. The ratable share of this discount is determined by multiplying such discount by a fraction, the numerator of which is the number of days the taxpayer held the bill and the denominator of which is the number of days from the day following the taxpayer's date of purchase to the maturity of the bill. If the gain on the sale of a bill exceeds the taxpayer's ratable portion of the acquisition discount, the excess gain is treated as short-term capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M. May 12, 1982

TREASURY TO AUCTION $5,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $5,500 million of 2-year notes to refund $3,873 million of notes maturing May 31, 1982, and to raise $1,627 million new cash. The $3,873 million of maturing notes are those held by the public, including $732 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $411 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders. Additional amounts of the new security may also be issued at the average price to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing securities held by them.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

oOo

Attachment

R-776

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JUNE 1, 1982

May 12, 1982

Amount Offered:

To the public	$5,500 million

Description of Security:

Term and type of security	2-year notes
Series and CUSIP designation	Series S-1984 (CUSIP No. 912827 NF 5)
Maturity date	May 31, 1984
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	November 30 and May 31
Minimum denomination available	$5,000

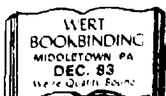
Terms of Sale:

Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less
Payment by non-institutional investors	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Deadline for receipt of tenders	Wednesday, May 19, 1982, by 1:30 p.m., EDST
Settlement date (final payment due from institutions)	
a) cash or Federal funds	Tuesday, June 1, 1982
b) readily collectible check	Thursday, May 27, 1982
Delivery date for coupon securities	Thursday, June 10, 1982

9213



WERT
BOOKBINDING
MIDDLETOWN PA
DEC. 83

U.S. TREASURY LIBRARY
1 0031617