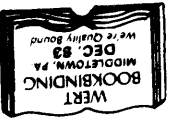
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T: PRESS RELEASES

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. March 22, 1983

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,400 million, to be issued March 31, 1983. This offering will provide $1,475 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $10,933 million, including $967 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,099 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 $ 6,200 million, representing an additional amount of bills dated December 30, 1982, and to mature June 30, 1983 (CUSIP No. 912794 CZ 5), currently outstanding in the amount of $ 5,813 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 6,200 million, to be dated March 31, 1983, and to mature September 29, 1983 (CUSIP No. 912794 DS 0).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing March 31, 1983. 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-3000

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, March 28, 1983. 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 March 31, 1983, in cash or other immediately-available funds or in Treasury bills maturing March 31, 1983. 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 IMMEDIATE RELEASE | March 22, 1983

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $5,502 million of $11,796 million of tenders received from the public for the 4-year notes, Series H-1987, auctioned today. The notes will be issued March 31, 1983, and mature March 31, 1987.

The interest rate on the notes will be 10-1/4%. The range of accepted competitive bids, and the corresponding prices at the 10-1/4% interest rate are as follows:

	Bids	Prices
Lowest yield	10.25%	100.000
Highest yield	10.33%	99.743
Average yield	10.30%	99.839

Tenders at the high yield were allotted 16%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

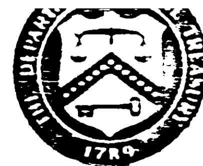
Location	Received	Accepted
Boston	$ 129,239	$ 33,639
New York	9,776,075	4,575,927
Philadelphia	24,130	23,290
Cleveland	190,234	148,394
Richmond	91,682	43,322
Atlanta	54,944	43,184
Chicago	755,666	268,626
St. Louis	101,431	95,034
Minneapolis	38,164	34,664
Kansas City	80,268	78,348
Dallas	13,202	13,202
San Francisco	539,158	142,918
Treasury	1,904	1,904
Totals	$11,796,097	$5,502,452

The $5,502 million of accepted tenders includes $1,298 million of noncompetitive tenders and $4,204 million of competitive tenders from the public.

In addition to the $5,502 million of tenders accepted in the auction process, $ 675million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $300 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

R-3001

TREASURY NEWS



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

FOR IMMEDIATE RELEASE
Thursday, March 17, 1983

Contact: Marlin Fitzwater
(202) 566-5252

MCNAMAR TO LEAD DELEGATION TO LATIN AMERICA

Deputy Secretary of the Treasury R. T. McNamar will lead a delegation of U.S. Congresssional representatives to discuss international financial conditions with officials in Mexico, Peru and Brazil, March 25-31.

Secretary Donald T. Regan, originally scheduled to head the delegation, will remain in Washington to work on development of the FY 1984 Budget, including the economic forecasts.

"The purpose of this trip will be to meet with top financial officials and business leaders in each of these countries to examine the genesis and resolution of their financial problems," Secretary Regan said. "The delegation will discuss the efforts each of these countries is making individually, and in conjunction with international institutions, to resolve these problems and to adjust their economies to a more sustainable basis."

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

March 23, 1983

RESULTS OF AUCTION OF 7-YEAR NOTES

The Department of the Treasury has accepted $4,766 million of $11,744 million of tenders received from the public for the 7-year notes, Series D-1990, auctioned today. The notes will be issued April 4, 1983, and mature April 15, 1990.

The interest rate on the notes will be 10-1/2%. The range of accepted competitive bids, and the corresponding prices at the 10-1/2% interest rate are as follows:

	Bids	Prices
Lowest yield	10.55% 1/	99.740
Highest yield	10.59%	99.546
Average yield	10.58%	99.594

Tenders at the high yield were allotted 67%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 122,017	$ 16,367
New York	9,567,069	4,109,165
Philadelphia	210	210
Cleveland	79,276	59,276
Richmond	68,427	30,547
Atlanta	37,968	29,638
Chicago	944,037	229,597
St. Louis	69,693	60,193
Minneapolis	24,389	21,059
Kansas City	33,557	30,557
Dallas	13,584	13,254
San Francisco	782,493	164,973
Treasury	1,008	1,008
Totals	$11,743,728	$4,765,844

The $4,766 million of accepted tenders includes $1,103 million of noncompetitive tenders and $3,663 million of competitive tenders from the public.

In addition to the $4,766 million of tenders accepted in the auction process, $260 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities.

1/ Excepting 1 tender of $1,000,000

R-3002

TREASURY NEWS

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

FOR IMMEDIATE RELEASE March 24, 1983

RESULTS OF AUCTION OF 20-YEAR 1-MONTH BONDS

The Department of the Treasury has accepted $3,251 million of $7,703 million of tenders received from the public for the 20-year 1-month bonds auctioned today. The bonds will be issued April 4, 1983, and mature May 15, 2003.

The interest rate on the bonds will be 10-3/4%. The range of accepted competitive bids, and the corresponding prices at the 10-3/4% interest rate are as follows:

	Bids	Prices
Lowest yield	10.78%	99.694
Highest yield	10.84%	99.207
Average yield	10.81%	99.450

Tenders at the high yield were allotted 28%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 92,853	$ 5,853
New York	6,514,480	2,969,510
Philadelphia	7,370	2,370
Cleveland	8,264	6,264
Richmond	35,724	15,764
Atlanta	22,255	17,255
Chicago	601,588	138,688
St. Louis	38,228	35,148
Minneapolis	10,827	10,827
Kansas City	7,233	7,233
Dallas	3,291	2,291
San Francisco	360,840	39,240
Treasury	74	74
Totals	$7,703,027	$3,250,517

The $3,251 million of accepted tenders includes $743 million of noncompetitive tenders and $2,508 million of competitive tenders from the public.

R-3003

TREASURY NEWS

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

FOR IMMEDIATE RELEASE March 28, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,202 million of 13-week bills and for $ 6,201 million of 26-week bills, both to be issued on March 31, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing June 30, 1983			:	26-week bills maturing September 29, 1983		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	97.818 a/	8.632%	8.97%	:	95.616 b/	8.672%	9.22%
Low	97.801	8.699%	9.04%	:	95.593	8.717%	9.27%
Average	97.806	8.680%	9.02%	:	95.599	8.705% 2/	9.26%

a/ Excepting 1 tender of $50,000.
b/ Excepting 3 tenders totaling $1,510,000.

Tenders at the low price for the 13-week bills were allotted 38%.
Tenders at the low price for the 26-week bills were allotted 60%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 113,415	$ 48,415	:	$ 124,160	$ 47,160
New York	11,251,895	4,960,295	:	12,027,290	4,757,060
Philadelphia	38,370	38,370	:	18,635	18,635
Cleveland	94,470	78,920	:	355,635	240,635
Richmond	75,590	69,590	:	118,375	92,375
Atlanta	47,865	47,865	:	119,955	114,955
Chicago	983,935	357,835	:	811,750	275,750
St. Louis	58,200	56,200	:	42,625	38,625
Minneapolis	21,220	17,360	:	17,830	13,820
Kansas City	37,655	37,655	:	54,935	52,935
Dallas	37,640	37,640	:	20,395	15,395
San Francisco	1,176,875	271,955	:	1,198,760	307,760
Treasury	179,895	179,895	:	225,805	225,805
TOTALS	$14,117,025	$6,201,995	:	$15,136,150	$6,200,910
Type					
Competitive	$11,891,030	$3,976,000	:	$12,873,465	$3,938,225
Noncompetitive	896,905	896,905	:	796,785	796,785
Subtotal, Public	$12,787,935	$4,872,905	:	$13,670,250	$4,735,010
Federal Reserve	1,082,290	1,082,290	:	1,080,000	1,080,000
Foreign Official Institutions	246,800	246,800	:	385,900	385,900
TOTALS	$14,117,025	$6,201,995	:	$15,136,150	$6,200,910

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 8.418%.

R-3004

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 6:30 P.M.

ADDRESS BY
BERYL W. SPRINKEL
UNDER SECRETARY FOR MONETARY AFFAIRS
BEFORE THE CHAMBER OF COMMERCE
SALISBURY, MARYLAND
TUESDAY, MARCH 29, 1983

From Recovery to Renewal

It is with extreme pleasure that I visit this beautiful Eastern Shore tonight to share with you my confidence in the healthy economic recovery that is upon us.

When President Reagan took office a little more than two years ago, conventional wisdom had it that no chief executive could surmount political tradition and a locust cloud of special interests to wage an effective war against inflation. No one man, it was said, could make good on his promises to reduce taxes, reform the spider's web of excessive regulations, curb the voracious hunger of Washington's big spenders, and reverse the misguided economic policies that dulled American competitiveness and drained off billions of dollars from productive investment and job creation.

But I invite you to consider the latest numbers disgorged by capital computers. Two years ago, consumer prices were rising at an annual rate of better than 12%. Today, the CPI stands at 3.5%. And with oil prices continuing to slide, the outlook for inflation remains favorable. Two years ago, interest rates were topping out at 21 1/2%. Today, they're less than half that figure, and the rewards for patience can be counted in every real estate office in America, lumber mills, and brokerage houses. Two years ago, the federal budget was growing at a yearly clip of 14% -- and my use of the word clip is not accidental. Today, Uncle Sam is tightening his belt just as millions of those who support him with their taxes have had to do. Those taxpayers will receive a windfall of $335 billion or so between now and 1985 -- money they never would have seen, let alone spent, were it not for the economic reform program adopted at the President's urging in 1981.

None of this fits the conventional mold as sculpted by pre-Reagan Washington. Nor have the rites of passage been navigated painlessly. Thanks to the skyhigh interest rates we inherited, we found ourselves in a recession far deeper and far more prolonged than anyone expected. But as the tax cut medicine prescribed in the spring of 1981 has taken hold, as savings have swelled and consumer spending expanded, as the perception of reduced inflation rose up to meet the reality, as investors came

to accept our long-range commitment to fight inflation with more than words -- well, the unconventional is in the process of vindication.

In addition to the impressive progress against inflation and interest rates, we can now measure month by month the rebound of an economy primed for significant growth and sustained prosperity. "An optimist," Winston Churchill liked to say, "sees an opportunity in every calamity, a pessimist sees a calamity in every opportunity." In case you haven't guessed by now, we at the Treasury Department are optimists. And even in Washington, that outpost of tunnel vision, it's hard to miss the opportunities as omnipresent as press releases and cameramen.

The recession is over, by virtually any statistical measurement at hand. January's increase in the leading economic indicators was 3.6% -- the largest spurt since Harry Truman occupied the White House in July, 1950. Industrial production has risen in each of the last three months. Factory utilization has halted its decline, and durable goods orders are up strongly compared to 1982. Housing starts have reached their highest levels in over three years. Inventories continued to fall in January, on the heels of the sharpest liquidation since World War II.

Most important of all, the unemployment rate has peaked at 10.8% and retreated to 10.4. That is still too high -- far too high for any of us to claim ultimate victory in the economic battle still being waged. But on top of so much persuasive evidence that the worst is behind us, and with the knowledge that employment usually trails behind other indexes of economic performance by several months, it's fair to say that the American economy is not only poised for recovery -- it has already begun to generate fresh opportunity.

According to the National Association of Purchasing Management, incoming orders are rising steadily, and the employment picture is brighter than at any time in more than a year. Just twelve weeks ago, these same purchasing chiefs were asked to give their assessment of the first quarter of 1983. Twenty-eight percent predicted improvement over the same period last year; 15% forecast a worse quarter. But according to the latest survey, 58% of the purchasing managers replied that this quarter would show improvement over last year. The ranks of the pessimists had dwindled to just 11%.

If only the same ratio held true for Congress and the media.

This Chamber ought not forget, as we begin to move from recession to recovery, that the entire Reagan Revolution, is based on the idea that less government and more capitalism will attack at their roots the overgrowth of crushed American dreams and blasted opportunities that have mocked our claims to compassion and social justice and wasted our most precious asset,

which is people. How can we sustain both? How can we avoid the tragic experiences of the recent past, when two short-lived booms were snuffed out before they got beyond the stage of infancy? How can we raise the floor beneath those now in distress, without lowering the ceiling on future growth and future employment?

It's been said that it is the business of the future to be dangerous. I couldn't disagree more strongly. I look beyond the headlines to see the horizon, and I see an economy of enormous untapped potential. Not just in computer chips and not just in the high tech belts of Boston's Route 128 and the Silicon Valley. But in the lumber yards and textile mills, in Salisbury and its metropolitan area, wherever men and women with imagination as well as capital decide to exploit the one while investing the other.

First things first. Millions of our people still hurt. They deserve more than pious words and congressional hearings. To address the problems of structural unemployment, the President is proposing a number of steps. One is a voucher system, permitting workers to swap unemployment benefits for job vouchers, which would, in turn, entitle employers to tax credits. In addition, he has called for a thousand per cent increase in funds targeted to displaced workers under the Job Training Partnership Act. More money than ever before would reach the states to permit job retraining, placement and relocation assistance. In place of CETA, which even its friends acknowledge was flawed by administrative overhead and insufficient attention to long-term employment, the administration is seeking three billion dollars to train workers for jobs that will outlast a government program, and paychecks that do not depend upon the whim of a congressional committee.

For young people who suffer a disproportionate share of unemployment, we propose to open the door to opportunity -- without shutting it in the face of adult workers. During the summer months, we would permit employers to hire teenagers at $2.50 per hour. No solution is perfect, but compared with the nightmare of teenage unemployment we can no longer stand by and allow the status quo to serve as an excuse for inaction.

In addition to these steps, the President has signalled his unwavering opposition to those who would scrap either the third year of his across the board tax cut, or tax indexing, now scheduled to take effect in 1985. Let's be honest with ourselves and with our children. The tax cuts adopted in 1981 did little more than keep our heads above water. They did call a halt to the rapidly increasing trends evident in the late 70's, and they put us more nearly on an equal footing with tax levels applied in the more prosperous 60's. Those with a fondness for yesterday's policies cloak their nostalgia in the seductive language of fairness. Of course, they never tell us what was fair about double-digit inflation, record interest rates, or the decline in purchasing power fostered by their own inclination to spend now

and send the bill to future generations. It's as if we'd created a new beatitude: "Blessed are the young, for they shall inherit the national debt."

The facts, of course, are simple. Those who earn between $10,000 and $50,000 a year -- what is generally defined as the broad middle class of Americans -- pay about three-quarters of all income taxes. They receive about three-quarters of the income tax cut. But in addition to that, they receive a disproportionate boost in the value of their dollars when you figure in a dramatically reduced inflation rate. To repeal the third year of the tax cut now would impose comparatively little hardship on the wealthy. For those with incomes of $200,000 or more, it would mean a tax hike of less than 3%. But for those whose adjusted gross income is less than $10,000 a year, repeal of this July's tax cut would impose nearly 14% of additional tax liability. For those in the twenty to thirty thousand dollar range, the added burden would amount to 12%.

Indeed, repeal of the third year of the tax cut and indexing would cost the typical median income ($24,300 in 1980) family of four $1061 in higher taxes over the next three years and $3549 in higher taxes through 1988.

Now what, may I ask, is fair about any of that?

There are congressmen who want to scuttle the tax cut for the same reason they want to deliver indexing stillborn -- because their own appetite for spending money -- taxpayer money -- is out of control. Inflation may be a public enemy to the rest of us, but to them, it's an unwitting ally, because it artificially raises revenue by elevating working people into higher tax brackets. Lincoln used to tell about an Illinois politician who was once offered transport out of town on the nearest rail. And he replied that if it weren't for the honor of the thing, he's just as soon walk. Well, the average worker in this country can do just fine without the dubious honor of bracket creep. And if we mean business in bringing genuine reform as well as lasting recovery, then we will hold to the policies that promise both.

We will continue to apply self-discipline in the budgetary process, to whittle away at the growth rate of entitlement and other programs that have outstripped the ability of our economy to support them. We will scrutinize every federal expenditure for its usefulness, weighed against the danger of mountainous deficits. And we will not yield to special interests, whether in pinstripes or bluejeans, who distort the truth for their own selfish ends. You've all heard of bankers' hours. Well, these days, some bankers are working over time -- not to attract customers but to frighten them. Their arguments against withholding of interest and dividend income, I'm sorry to say, are about as phony as a three dollar bill. This is not a new tax, nor an unfair burden on financial institutions. It is tax

reform, tax compliance, and the principle of equal treatment carried beyond the rhetoric of election years. The Perdue employee has his taxes deducted from each week's paycheck. Why shouldn't those with unearned income accept a similar deduction once a year? At a time when sacrifice has been asked and given by the many, I can see no justification for exempting the few.

In the end, however, the renewal of American industry will come about, not because Washington wished it, but because economic managers in the field willed it. We have come through a recession which, ironically, has left much of American industry in better condition to compete, to innovate, to scratch out or expand its share of tomorrow's market. America stands poised for renewal. Yet all our progress could vanish with hardly a trace if American business loses its nerve or abandons its taste for competition -- if American workers forget the harsh lessons of inflation and joblessness taught over a decade or more of immoderate demands -- if government owns up to its own responsibilities, only to have business run away from possibility.

Not long ago, the Department of the Treasury had a chance to review the findings of a Cambridge-based think tank, the Strategic Planning Institute. After surveying 200 major U.S. firms and their strategies for future operation, SPI discovered that American industry has yet to grasp possibilities over and above new technologies alone. Investment even now could be increased by 30%. For support, the authors point to Miller Brewing Company, eighth ranking brewer when Phillip Morris purchased it in 1970, with a market share of less than 5%. Over the next three years, Phillip Morris doubled plant capacity, designed new ad campaigns, and withstood one year of red ink in pursuit of a larger goal.

Today, Miller is the second largest company in its field, and a highly profitable Number Two at that. The implication is clear: our preoccupation with the short run has blinded us to the necessity for risktaking. Walter Bagehot put it bluntly yet truthfully more than a century ago. "The buoyant rise and rule," he wrote, "the weak, the shrinking, and the timid fall and serve."

Before concluding, let me switch gears for a moment and discuss the international scene. There are two major international issues which are affecting our own economy. The first big issue is oil.

OPEC has finally reached an agreement on oil pricing. This is clearly good news for the United States and the world economy. It will mean less inflation, and will certainly hold interest rates down.

The oil price reduction will obviously place some strains on certain oil exporters with large external debts. However, of the

ten nations with the largest debts, eight are oil importers. This action will be of great benefit to them as well as to the other less developed countries. Those are repercussions the Treasury is watching very closely.

The second issue is international debt and the role of the International Monetary Fund -- the IMF.

Right now the Administration is seeking Congressional approval of an increase in quotas for the IMF -- an increase which is acutely needed for the IMF to continue its traditional role in international lending.

If there was too much international lending in the decade of the 70's that contributed to today's problems, too little lending in the 80's would be disastrous. The key here is to pursue a prudent and balanced approach.

Many have asked: What difference does international lending make to us? The short answer is that it makes a tremendous difference, because the ability of these countries to successfully adjust to their new realities will have a direct and powerful impact on economic activity here in the United States.

U.S. exports in 1980 accounted for 19 percent of total production of goods compared to only 9 percent ten years earlier. And during the same period, export-related jobs rose 75 percent, to ovehr 5 million.

Let me cite Mexico as an immediate case in point.

Mexico is our third largest trading partner, after Canada and Japan. And, as recently as 1981, it was a partner with whom we had an export boom and a substantial trade surplus. This situation changed dramatically in 1982, as Mexico began experiencing severe debt and liquidity problems. As a result, U.S. exports to Mexico dropped by a staggering 60 percent between the fourth quarter of 1981 and the fourth quarter of 1982. Our $4 billion trade surplus with Mexico in 1981 was transformed into a trade deficit of nearly $4 billion in 1982, due mainly to an annual average drop in U.S. exports of one-third. This $8 billion deterioration was our worst swing in trade performance with any country in the world, and it was due almost entirely to the financing problem.

We believe that this situation will start to turn around, and we can begin to resume more normal exports to Mexico. If this happens, it will be due in large part to the fact that, late in December, an IMF program for Mexico went into effect. This program and the financing associated with it will permit resumption of more normal levels of economic activity and imports. Without the IMF program, all we could look forward to would be ever-deepening depression in Mexico and still further declines in our exports to that country. Improvement in the

Mexican situation will translate directly into more jobs in the U.S.

And there is a second way in which all this affects us.

What if debtor nations cannot service their debts? If interest payments to U.S. banks are more than 90 days late, the banks stop accruing them on their books, they suffer reduced profits and bear the costs of continued funding of the loan. Provisions may have to be made for loss, and as loans are actually written off, the capital of the bank is reduced. In that case the creditors banks' capital/asset ratios would shrink. American banks would then have to take measures to restore the capital/asset ratios. Banks would be forced to make fewer loans to all borrowers, domestic and foreign. Auto loans in Detroit, housing loans in Dallas, capital expansion loans in California -- all would be affected.

Thus we must look to this period of recovery as a time of great transition and opportunity. A good deal of restructuring has taken place during this long and troubling world recession -- restructuring of our industrial capacity at home and restructuring of our international relationships as well. We approach a time of renewal.

"This is perhaps the most beautiful time in human history," Dr. Jonas Salk has written. "It is really pregnant with all kinds of creative possibilities made possible by science and technology which now constitute the slave of man -- if man is not enslaved by it."

Therein lies the ultimate challenge of change. How we meet that challenge will be influenced by political decisions, to be sure. But whether you choose to see calamity or potential will also help to decide what the rest of us see a few years down the road. The President has done much to foster a climate ripe for innovation. But we cannot innovate for the business community. We can only echo the sentiment of Emerson, who said, "Be an opener of doors for such as come after thee, and do not try to make the universe a blind alley."

The doors, ladies and gentlemen, have been opened. We invite you to walk through them, and to join us in opening them still wider for those who follow. We invite you to convert recovery into renewal, for Salisbury and all across this enterprising land.

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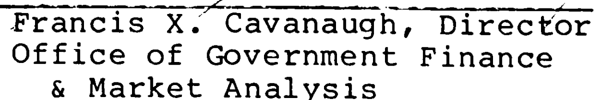
FOR IMMEDIATE RELEASE MARCH 28, 1983

The Treasury announced today that the 2-1/2 year Treasury yield curve rate for the five business days ending March 28, 1983, averaged 9.95 % rounded to the nearest five basis points. Ceiling rates based on this rate will be in effect from Tuesday, March 29, 1983 through Thursday, March 31, 1983.

Effective April 1, 1983, the maturity range for small saver certificates will be 1-1/2 years to less than 2-1/2 years. On March 31 the Treasury will announce a 1-1/2 year yield curve rate to be in effect for small saver certificates issued from April 1, 1983 to April 11, 1983. The 1-1/2 year rate for this purpose will then be announced on alternate Mondays beginning April 11, 1983 and terminated when this rate is no longer required by regulations.

Detailed rules as to the use of this rate in establishing the ceiling rates for small saver certificates are set forth in Title 12 of the Code of Federal Regulations, section 1204.106.

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, Director
Office of Government Finance
& Market Analysis

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Tuesday, March 29, 1983

Contact: Charley Powers
(202) 566-2041

NEW DIRECTOR NAMED FOR ATF

Secretary of the Treasury Donald T. Regan today named Stephen E. Higgins Director of the Bureau of Alcohol, Tobacco and Firearms (ATF) in Washington, D.C.

Higgins, 44, has been Acting Director of ATF since March of 1982. Higgins directs a multi-mission Bureau responsible for carrying out regulatory and law enforcement missions relating to alcohol, tobacco and firearms and explosives. The Bureau, which has offices in every state of the union, is also responsible for collecting $8 billion annually in Federal alcohol and tobacco excise taxes.

A career Federal employee, Higgins served as ATF's Deputy Director from 1979 to 1982 and as Assistant Director for Regulatory Enforcement from 1975 to 1979.

He joined ATF in 1961 as an Inspector in Omaha, Nebraska, and rapidly assumed positions of increasing responsibility, serving in virtually every regulatory enforcement capacity within the Bureau. His posts of duty have included Chicago, Dallas, Philadelphia and San Francisco.

In 1973, Higgins joined the ATF headquarters staff as Deputy Assistant Director for Regulatory Enforcement. Later that year he transferred to Chicago as Director of the ATF Midwest Region for Regulatory Enforcement, and, at age 36, became the youngest Assistant Director in the Bureau's history.

Higgins is a charter recipient of the Meritorious Executive Award, a Presidential honor granted for the first time in 1980. The Secretary of the Treasury, in presenting the award on behalf of the President, stated that Higgins "distinguished himself and the Bureau" through his efforts as a senior Treasury Department Executive.

Born in St. John, Kansas, Higgins graduated with honors from Emporia College. He did graduate work at the University of Washington after receiving a career education fellowship from the National Institute of Public Affairs.

The new ATF Director is a member of the International Association of Chiefs of Police. ATF works closely with police departments throughout the country to curb firearms, explosives and arson crimes.

Higgins and his wife Cheryl have three children and reside in McLean, Virginia.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. March 29, 1983

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,400 million, to be issued April 7, 1983. This offering will provide $ 925 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $11,474 million, including $751 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $ 2,178 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 $ 6,200 million, representing an additional amount of bills dated January 6, 1983, and to mature July 7, 1983 (CUSIP No. 912794 DH 4), currently outstanding in the amount of $ 5,817 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 6,200 million, representing an additional amount of bills dated October 7, 1982, and to mature October 6, 1983 (CUSIP No. 912794 DD 3), currently outstanding in the amount of $ 7,012 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 April 7, 1983. 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-3008

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 4, 1983. 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 7, 1983, in cash or other immediately-available funds or in Treasury bills maturing April 7, 1983. 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 March 30, 1983

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of February 1983.

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies on Februray 28, 1983 totaled $126.6 billion, an increase of less than $0.1 billion over the level on January 31, 1983. FFB increased holdings of agency guaranteed debt by over $0.6 billion and holdings of agency debt issues increased by less than $0.1 billion. Holdings of agency assets purchased declined by $0.6 billion. A total of 213 disbursements were made during the month.

Attached to this release are tables presenting FFB February loan activity; new FFB commitments to lend during February and FFB holdings as of February 28, 1983.

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R-3009

FEBRUARY 1983 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					
Note #282	2/11	$ 5,000,000.00	5/12/83	8.549%	
Note #283	2/28	45,000,000.00	5/12/83	8.175%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
Note #154	2/3	750,000.00	3/7/83	8.551%	
+Note #155	2/14	10,500,000.00	5/5/83	8.523%	
+Note #156	2/14	7,000,000.00	5/16/83	8.523%	
+Note #157	2/16	2,000,000.00	4/18/83	8.636%	
+Note #158	2/16	2,500,000.00	5/17/83	8.636%	
Note #159	2/16	2,000,000.00	3/1/83	8.636%	
+Note #160	2/18	13,500,000.00	5/5/83	8.476%	
+Note #161	2/22	7,013,000.00	4/25/83	8.341%	
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership					
	2/22	130,000,000.00	2/22/98	10.885%	11.181% ann.
	2/22	30,000,000.00	2/22/03	11.025%	11.329% ann.
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES					
Philippines 7	2/1	409,694.52	9/10/87	8.835%	
Greece 14	2/2	361,692.10	4/30/11	10.925%	
Somalia 1	2/2	194,155.78	9/1/92	10.895%	
Somalia 2	2/2	376,324.22	5/16/11	10.912%	
Dominican Republic 5	2/3	108,261.93	4/30/89	10.715%	
Jordan 8	2/3	2,426,245.84	11/22/90	9.758%	
Turkey 12	2/3	17,480,000.00	5/5/11	11.069%	
Turkey 14	2/3	2,246,072.00	11/30/12	10.995%	
Liberia 9	2/4	13,500.00	7/21/94	11.075%	
Turkey 9	2/4	1,084,946.07	6/22/92	11.005%	
Egypt 3	2/7	765,917.13	6/15/12	11.315%	
Indonesia 7	2/7	537,964.35	3/20/90	10.935%	
Korea 15	2/7	15,000,000.00	12/31/93	10.922%	
Peru 8	2/7	82,150.00	12/15/88	9.515%	
Israel 13	2/7	10,253,609.72	2/16/12	11.345%	
Israel 13	2/9	15,396,130.35	2/16/12	11.349%	
Kenya 10	2/9	29,140.00	5/5/94	10.275%	
Turkey 9	2/9	246,585.90	6/22/92	11.065%	
Turkey 12	2/9	3,106,831.00	5/5/11	11.169%	
Turkey 13	2/9	115,892.00	3/24/12	11.075%	
Turkey 14	2/9	10,086,594.00	11/30/12	11.128%	
El Salvador 5	2/11	1,439,816.50	11/30/94	10.678%	
Indonesia 7	2/11	573,991.60	3/20/90	10.755%	
Egypt 3	2/14	2,791,279.14	6/15/12	11.155%	
Greece 14	2/14	6,305,847.52	4/30/11	10.935%	
Uruguay 2	2/14	95,386.50	12/31/84	9.745%	
Turkey 9	2/15	1,809,581.81	6/22/92	10.880%	
Israel 8	2/16	2,000,000.00	9/1/09	11.255%	
Israel 13	2/17	8,680,262.39	2/16/12	11.175%	
Greece 14	2/22	391,376.00	4/30/11	10.805%	
El Salvador 5	2/22	817,145.00	11/30/94	10.498%	
Greece 12	2/22	2,812,854.00	6/3/10	10.989%	
Greece 13	2/22	1,939,956.00	9/22/90	10.411%	
Israel 13	2/22	17,842,079.30	2/16/12	10.978%	
Peru 7	2/22	73,927.45	2/15/88	9.981%	
Philippines 7	2/22	302,195.44	9/10/87	8.735%	
Spain 4	2/22	102,041.29	4/25/90	10.585%	
Spain 5	2/22	98,257.25	6/15/91	10.375%	
Pakistan 1	2/23	150,000,000.00	1/15/95	10.417%	

+rollover

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)					
El Salvador 5	2/23	$ 1,771,372.46	11/30/94	10.427%	
Egypt 3	2/24	3,125,032.81	6/15/12	10.815%	
Turkey 9	2/24	1,251,862.24	6/22/92	10.535%	
Turkey 13	2/24	131,418.00	3/24/12	10.525%	
Dominican Republic 5	2/25	406.34	4/30/89	10.185%	
Greece 13	2/25	1,956,373.00	9/22/90	10.175%	
Israel 13	2/25	8,657,545.71	2/16/12	10.821%	
Korea 15	2/25	9,115,348.00	12/31/93	10.397%	
Jordan 7	2/25	162,046.10	3/16/90	10.235%	
Jordan 7	2/25	35,980.00	11/22/90	9.605%	
Turkey 12	2/25	196,328.33	5/5/11	10.725%	
Turkey 12	2/28	719,919.11	5/5/11	10.585%	
Korea 15	2/28	135,275.28	12/31/93	10.265%	
DEPARTMENT OF ENERGY					
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #50	2/7	4,000,000.00	4/1/83	9.289%	
#51	2/14	9,000,000.00	4/1/83	9.299%	
#52	2/22	11,000,000.00	10/3/83	9.655%	
#53	2/28	12,000,000.00	1/3/84	9.495%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant Guarantees					
*Peoria, IL	2/1	3,675,000.00	2/1/87	10.053%	10.306% ann.
Pomona, CA	2/8	850,000.00	8/1/84	9.575%	9.804% ann.
Phila. Auth. for Ind. Dev.	2/8	630,000.00	10/1/03	11.192%	11.505% ann.
Hammond, ID	2/8	213,935.00	5/1/84	9.395%	9.616% ann.
Washington County, PA	2/14	18,290.40	8/1/83	8.765%	
*Ashland, KY	2/15	158,200.00	2/15/88	10.234%	10.496% ann.
Nashville, TN	2/23	250,000.00	6/1/84	9.035%	9.239% ann.
Hialeah, FL	2/24	289,083.98	12/1/83	8.735%	8.868% ann.
Tempe, AZ	2/24	626,500.00	6/1/83	8.365%	
Public Housing Notes					
Sale #30	2/4	52,260,160.32	11/1/08-11/1/18	11.103%	11.411% ann.
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	2/22	9,500,000.00	10/1/92	10.434%	10.706% ann.
RURAL ELECTRIFICATION ADMINISTRATION					
*Corn Belt Power #55	2/1	2,151,000.00	12/31/13	11.139%	10.988% qtr.
Saluda River Electric #186	2/1	2,100,000.00	2/1/85	9.705%	9.590% qtr.
Arkansas Electric #142	2/1	6,043,000.00	12/31/17	11.136%	10.985% qtr.
S. Mississippi Electric #90	2/1	713,000.00	12/31/17	11.136%	10.985% qtr.
S. Mississippi Electric #171	2/1	2,004,000.00	12/31/17	11.136%	10.985% qtr.
*Cajun Electric #180	2/2	33,000,000.00	12/31/15	11.106%	10.956% qtr
*Arkansas Electric #142	2/2	1,748,000.00	12/31/15	11.106%	10.956% qtr.
Kansas Electric #216	2/3	1,020,000.00	12/31/17	11.105%	10.955% qtr.
*S. Mississippi Electric #3	2/3	993,000.00	12/31/15	11.105%	10.955% qtr.
*S. Mississippi Electric #171	2/3	17,003,000.00	12/31/15	11.105%	10.955% qtr.
*Brazos Electric #108	2/4	20,000.00	12/31/15	11.211%	11.058% qtr.
*Brazos Electric #108	2/4	866,000.00	12/31/15	11.211%	11.058% qtr.
*Western Farmers Electric #64	2/4	6,000.00	2/4/85	9.835%	9.717% qtr.
*Saluda River Electric #186	2/6	132,087,361.41	12/31/15	11.272%	11.118% qtr.
Pacific Northwest Gen. #118	2/7	359,000.00	12/31/17	11.272%	11.117% qtr.
*Colorado Ute Electric #168	2/10	3,755,000.00	2/10/85	10.015%	9.893% qtr.
*Wabash Valley Electric #104	2/10	3,687,000.00	2/10/85	10.015%	9.893% qtr.
*Wolverine Electric #182	2/10	858,000.00	2/10/85	10.015%	9.893% qtr.
*Central Electric Power #131	2/10	40,000.00	2/10/85	10.015%	9.893% qtr.
Allegheny Electric #175	2/10	51,000.00	3/31/85	10.055%	9.932% qtr.

*maturity extension

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
Allegheny Electric #255	2/10	$ 16,657,000.00	3/31/85	10.055%	9.932% qtr.
Arizona Electric #242	2/10	4,363,000.00	12/31/17	11.294%	11.139% qtr.
Wabash Valley Power #104	2/10	3,175,000.00	2/10/85	10.015%	9.893% qtr.
Wabash Valley Power #206	2/10	602,000.00	2/10/85	10.015%	9.893% qtr.
*N. Michigan Electric #183	2/10	1,101,000.00	2/10/85	10.015%	9.893% qtr.
*Western Illinois Power #162	2/11	2,016,000.00	12/31/15	11.117%	10.967% qtr.
*N. Michigan Electric #101	2/11	653,000.00	2/11/85	9.865%	9.746% qtr.
*Wolverine Electric #100	2/13	983,000.00	2/13/85	9.835%	9.717% qtr.
*Western Illinois Power #99	2/13	1,624,000.00	12/31/13	11.100%	10.950% qtr.
Deseret G&T #211	2/14	21,527,000.00	12/31/17	11.099%	10.949% qtr.
East Kentucky Power #188	2/14	4,800,000.00	12/31/17	11.099%	10.949% qtr.
Wabash Valley Power #252	2/15	1,106,000.00	2/15/85	9.905%	9.785% qtr.
New Hampshire Electric #192	2/15	915,000.00	2/15/85	9.905%	9.785% qtr.
Saluda River Electric #186	2/15	1,810,000.00	2/15/85	9.905%	9.785% qtr.
*Oglethorpe Power #74	2/15	17,232,000.00	12/31/15	11.104%	10.954% qtr.
*Oglethorpe Power #150	2/15	4,044,000.00	12/31/15	11.104%	10.954% qtr.
*East Kenkucky Power #73	2/16	8,134,000.00	12/31/13	11.149%	10.998% qtr.
Colorado Ute Electric #168	2/17	5,010,000.00	2/21/85	9.825%	9.707% qtr.
*San Miguel Electric #110	2/17	4,000,000.00	2/17/85	9.825%	9.707% qtr.
Dairyland Power #54	2/18	1,960,000.00	2/18/85	9.775%	9.658% qtr.
South Mississippi Electric #3	2/20	4,210,000.00	12/31/10	10.926%	10.784% qtr.
Seminole Electric #141	2/22	35,915,000.00	12/31/17	10.923%	10.778% qtr.
Big Rivers Electric #58	2/22	3,617,000.00	12/31/17	10.923%	10.778% qtr.
Big Rivers Electric #143	2/22	538,000.00	12/31/17	10.923%	10.778% qtr.
Big Rivers Electric #179	2/22	3,292,000.00	12/31/17	10.923%	10.778% qtr.
Oglethorpe Power #74	2/22	11,643,000.00	2/15/86	9.945%	9.824% qtr.
Soyland Power #226	2/22	16,105,000.00	2/22/85	9.695%	9.580% qtr.
*Big Rivers Electric #58	2/22	2,224,000.00	12/31/13	10.926%	10.781% qtr.
*Big Rivers Electric #91	2/22	3,071,000.00	12/31/13	10.926%	10.781% qtr.
*Cajun Electric #180	2/23	30,000,000.00	12/31/15	10.775%	10.634% qtr.
°Tex-La Electric #208	2/23	69,768,000.00	12/31/16	10.775%	10.634% qtr.
°Tex-La Electric #208	2/23	1,018,000.00	12/31/16	10.775%	10.634% qtr.
°Tex-La Electric #208	2/23	627,000.00	12/31/16	10.775%	10.634% qtr.
Corn Belt Power #55	2/23	191,000.00	12/31/17	10.774%	10.633% qtr.
Corn Belt Power #94	2/23	43,000.00	12/31/17	10.774%	10.633% qtr.
Corn Belt Power #138	2/23	1,275,000.00	12/31/17	10.774%	10.633% qtr.
Basin Electric #137	2/23	20,000,000.00	2/23/85	9.535%	9.424% qtr.
Tex-La Electric #208	2/23	4,950,000.00	2/23/85	9.535%	9.424% qtr.
*Big Rivers Electric #179	2/23	5,172,000.00	12/31/15	10.776%	10.635% qtr.
*Big Rivers Electric #143	2/23	41,000.00	12/31/15	10.776%	10.635% qtr.
*Big Rivers Electric #136	2/23	203,000.00	12/31/15	10.776%	10.635% qtr.
*Big Rivers Electric #91	2/23	1,309,000.00	12/31/15	10.776%	10.635% qtr.
*Big Rivers Electric #58	2/23	10,000.00	12/31/15	10.776%	10.635% qtr.
*Colorado Ute Electric #96	2/24	745,000.00	2/24/86	9.865%	9.746% qtr.
Colorado Ute Electric #203	2/24	1,675,000.00	2/24/85	9.565%	9.453% qtr.
Kansas Electric #216	2/24	880,000.00	12/31/17	10.768%	10.627% qtr.
Central Iowa Power #51	2/24	1,286,000.00	12/31/17	10.768%	10.627% qtr.
Dairyland Power #54	2/25	9,655,000.00	2/25/85	9.535%	9.424% qtr.
*Southern Illinois Power #38	2/25	1,825,000.00	12/31/12	10.637%	10.499% qtr.
*Southern Illinois Power #38	2/25	2,700,000.00	12/31/10	10.766%	10.625% qtr.
*S. Mississippi Electric #3	2/27	1,886,000.00	12/31/13	10.642%	10.504% qtr.
*S. Mississippi Electric #90	2/27	514,000.00	12/31/13	10.642%	10.504% qtr.
*Basin Electric #87	2/27	435,000.00	12/31/15	10.638%	10.500% qtr.
*Basin Electric #137	2/27	10,000,000.00	12/31/15	10.638%	10.500% qtr.
Plains Electric #158	2/28	3,691,000.00	12/31/17	10.639%	10.501% qtr.
Tex-La Electric #208	2/28	670,000.00	2/28/85	9.405%	9.297% qtr.
*Basin Electric #232	2/28	2,881,000.00	2/28/85	9.405%	9.297% qtr.
*Basin Electric #232	2/28	1,353,000.00	2/28/85	9.405%	9.297% qtr.
*Allegheny Electric #175	2/28	2,663,000.00	2/28/86	9.655%	9.541% qtr.
SMALL BUSINESS ADMINISTRATION					
Small Business Investment Company Debentures					
CMNY Capital Company, Inc.	2/28	500,000.00	2/1/86	9.775%	
First Interstate Capital, Inc.	2/28	3,000,000.00	2/1/88	10.075%	
Realty Growth Capital Corp.	2/28	300,000.00	2/1/88	10.075%	
First Connecticut SBIC	2/28	1,500,000.00	2/1/93	10.545%	

*maturity extension
°early extension

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Small Business Investment Company Debentures (Cont'd)					
Market Capital Corp.	2/28	$ 350,000.00	2/1/93	10.545%	
Massachusetts Capital Corp.	2/28	1,500,000.00	2/1/93	10.545%	
Monmouth Capital Corp.	2/28	400,000.00	2/1/93	10.545%	
Narragansett Venture Corp.	2/28	5,000,000.00	2/1/93	10.545%	
North Star Ventures, Inc.	2/28	3,000,000.00	2/1/93	10.545%	
RSC Financial Corporation	2/28	1,200,000.00	2/1/93	10.545%	
San Joaquin Capital Corp.	2/28	250,000.00	2/1/93	10.545%	
Washington Capital Corp.	2/28	1,120,000.00	2/1/93	10.545%	
State & Local Development Company Debentures					
Iowa Bus. Growth Co.	2/9	26,000.00	2/1/98	11.011%	
Hudson Dev. Corp.	2/9	35,000.00	2/1/98	11.011%	
S. Illinois Dev. Comm.	2/9	47,000.00	2/1/98	11.011%	
Jacksonville LDC, Inc.	2/9	73,000.00	2/1/98	11.011%	
Caprock LCD	2/9	79,000.00	2/1/98	11.011%	
San Diego County LDC	2/9	121,000.00	2/1/98	11.011%	
Brockton Regional EDC	2/9	194,000.00	2/1/98	11.011%	
St. Louis LCD	2/9	228,000.00	2/1/98	11.011%	
Econ. Dev. Sacramento, Inc.	2/9	252,000.00	2/1/98	11.011%	
Ocean State BDA, Inc.	2/9	269,000.00	2/1/98	11.011%	
Ocean State BDA, Inc.	2/9	285,000.00	2/1/98	11.011%	
Commonwealth SDC	2/9	500,000.00	2/1/98	11.011%	
St. Louis LDC	2/9	26,000.00	2/1/03	11.162%	
Wilmington Ind. Dev. Corp, Inc.	2/9	41,000.00	2/1/03	11.162%	
St. Louis LDC	2/9	62,000.00	2/1/03	11.162%	
BEDCO Dev. Corp.	2/9	78,000.00	2/1/03	11.162%	
St. Louis LDC	2/9	79,000.00	2/1/03	11.162%	
Cincinnati LCD	2/9	135,000.00	2/1/03	11.162%	
San Diego County LDC	2/9	145,000.00	2/1/03	11.162%	
Mid-Atlantic Cert. Dev. Co.	2/9	157,000.00	2/1/03	11.162%	
Long Island Dev. Corp.	2/9	185,000.00	2/1/03	11.162%	
Bay Colony Dev. Corp.	2/9	200,000.00	2/1/03	11.162%	
Ocean State BDA, Inc.	2/9	210,000.00	2/1/03	11.162%	
Grand Rapids LDC	2/9	243,000.00	2/1/03	11.162%	
BEDCO Dev. Corp.	2/9	419,000.00	2/1/03	11.162%	
Columbus Countywide Dev. Corp.	2/9	47,000.00	2/1/08	11.253%	
Oshkosh Comm. Dev. Corp, Inc.	2/9	78,000.00	2/1/08	11.253%	
St. Louis LDC	2/9	84,000.00	2/1/08	11.253%	
Tucson LDC of Tucson	2/9	91,000.00	2/1/08	11.253%	
Central Ozarks Dev. Inc.	2/9	105,000.00	2/1/08	11.253%	
S. Shore Econ. Dev. Corp.	2/9	130,000.00	2/1/08	11.253%	
Kalamazoo SBD Corp.	2/9	149,000.00	2/1/08	11.253%	
Lewiston Dev. Corp.	2/9	158,000.00	2/1/08	11.253%	
Pecan Valley Econ. Dev. Dist.	2/9	190,000.00	2/1/08	11.253%	
Citywide SBD Corp.	2/9	210,000.00	2/1/08	11.253%	
San Diego County LDC Corp.	2/9	247,000.00	2/1/08	11.253%	
Evergreen Comm. Dev. Assoc.	2/9	270,000.00	2/1/08	11.253%	
Los Medanos Fund	2/9	304,000.00	2/1/08	11.253%	
Los Medanos Fund	2/9	440,000.00	2/1/08	11.253%	
San Diego County LDC	2/9	484,000.00	2/1/08	11.253%	
Worcester BDC	2/9	500,000.00	2/1/08	11.253%	
Bay Colony Dev. Corp.	2/9	500,000.00	2/1/08	11.253%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-83-5	2/28	513,069,120.49	5/31/83	8.296%	

FEDERAL FINANCING BANK
February 1983 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
St. Petersburg, FL	HUD	$4,350,000.00	12/1/84	12/1/84
Cleveland, OH	HUD	2,000,000.00	1/2/85	1/2/04
Hammond, IN	HUD	500,000.00	6/1/84	6/1/84

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	February 28, 1983	January 31, 1983	Net Change 2/1/83-2/28/83	Net Change 10/1/82-2/28/83
On-Budget Agency Debt				
Tennessee Valley Authority	$ 12,690.0	$ 12,640.0	$ 50.0	$ 405.0
Export-Import Bank	14,176.7	14,176.7	-0-	222.7
NCUA-Central Liquidity Facility	94.2	100.0	-5.8	-35.9
Off-Budget Agency Debt				
U.S. Postal Service	1,221.0	1,221.0	-0-	-0-
U.S. Railway Association	121.9	121.9	-0-	-73.0
Agency Assets				
Farmers Home Administration	52,431.0	53,056.0	-625.0	-1,305.0
DHHS-Health Maintenance Org.	118.3	118.4	-.1	-12.8
DHHS-Medical Facilities	148.8	148.8	-0-	3.0
Overseas Private Investment Corp.	18.5	18.5	-0-	-3.0
Rural Electrification Admin.-CBO	3,123.7	3,123.7	-0-	-0-
Small Business Administration	54.8	55.4	-.7	-3.3
Government-Guaranteed Loans				
DOD-Foreign Military Sales	12,738.3	12,446.3	292.0	1,302.4
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loans	44.3	44.3	-0-	7.7
DOE-Non-Nuclear Act (Great Plains)	583.0	547.0	36.0	243.0
DHUD-Community Dev. Block Grant	128.2	128.7	-.5	11.3
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	1,755.2	1,703.0	52.3	131.0
General Services Administration	419.1	419.1	-0-	-1.4
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	29.2	29.2	-0-	-.3
NASA-Space Communications Co.	832.8	823.3	9.5	75.0
Rural Electrification Admin.	17,502.3	17,329.9	172.4	1,220.8
SBA-Small Business Investment Cos.	745.7	728.4	17.3	33.6
SBA-State/Local Development Cos.	83.4	75.4	8.0	35.0
TVA-Seven States Energy Corp.	1,273.9	1,243.0	30.8	15.9
DOT-Amtrak	855.7	855.7	-0-	.3
DOT-Section 511	186.4	186.4	-0-	-6.6
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 126,622.8	$ 126,586.6	$ 36.2	$ 2,265.5

*figures may not total due to rounding

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Wednesday, March 30, 1983

STATEMENT BY SECRETARY REGAN ON LEADING INDICATORS

"Today's release of the leading indicators for February provides further confirmation that the recovery is well underway. Leading indicators have now been up 10 of the past 11 months. This latest signal should provide further confidence that the recovery will be both solid and sustained."

TREASURY NEWS

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

FOR IMMEDIATE RELEASE April 4, 1983

TREASURY OFFERS $3,000 MILLION OF 10-DAY
CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $3,000 million of 10-day Treasury bills to be issued April 11, 1983, representing an additional amount of bills dated April 22, 1982, maturing April 21, 1983 (CUSIP No. 912794 CB 8).

Competitive tenders will be received at all Federal Reserve Banks and Branches up to 1:30 p.m., Eastern Standard time, Wednesday, April 6, 1983. Wire and telephone tenders may be received at the discretion of each Federal Reserve Bank or Branch. Each tender for the issue must be for a minimum amount of $1,000,000. Tenders over $1,000,000 must be in multiples of $1,000,000. The price on tenders offered must be expressed on the basis of 100, with three decimals, e.g., 97.920. Fractions may not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington.

The bills will be issued on a discount basis under competitive bidding, and at maturity their par amount will be payable without interest. The bills will be issued entirely in book-entry form in a minimum denomination of $10,000 and in any higher $5,000 multiple, on the records of the Federal Reserve Banks and Branches. Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

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

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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.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. 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. Those submitting tenders 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. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately-available funds on Monday, April 11, 1983.

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 may be obtained from any Federal Reserve Bank or Branch.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

April 4, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,206 million of 13-week bills and for $ 6,205 million of 26-week bills, both to be issued on April 7, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 7, 1983			:	26-week bills maturing October 6, 1983		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	97.823	8.612%	8.95%	:	95.610 a/	8.684%	9.23%
Low	97.806	8.680%	9.02%	:	95.593	8.717%	9.27%
Average	97.810	8.664%	9.01%	:	95.599	8.705% 2/	9.26%

a/ Excepting 2 tenders totaling $250,000.

Tenders at the low price for the 13-week bills were allotted 66%.
Tenders at the low price for the 26-week bills were allotted 76%

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 140,170	$ 55,170	:	$ 181,375	$ 76,375
New York	12,110,245	4,488,965	:	12,887,165	4,791,040
Philadelphia	26,515	26,515	:	20,215	20,215
Cleveland	110,550	46,825	:	149,430	39,190
Richmond	53,695	43,355	:	81,690	56,690
Atlanta	57,105	51,505	:	108,470	98,270
Chicago	940,405	171,025	:	1,089,995	317,615
St. Louis	49,540	42,370	:	62,390	49,090
Minneapolis	24,645	12,145	:	25,710	18,200
Kansas City	69,580	64,730	:	51,705	50,135
Dallas	28,230	28,230	:	18,975	18,975
San Francisco	1,295,400	905,700	:	1,146,190	337,190
Treasury	269,355	269,355	:	331,580	331,580
TOTALS	$15,175,435	$6,205,890	:	$16,154,890	$6,204,565
Type					
Competitive	$12,898,535	$3,928,990	:	$13,731,355	$3,781,030
Noncompetitive	1,046,790	1,046,790	:	976,335	976,335
Subtotal, Public	$13,945,325	$4,975,780	:	$14,707,690	$4,757,365
Federal Reserve	1,178,010	1,178,010	:	1,100,000	1,100,000
Foreign Official Institutions	52,100	52,100	:	347,200	347,200
TOTALS	$15,175,435	$6,205,890	:	$16,154,890	$6,204,565

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 8.552%.

R-3011

TREASURY NEWS

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

FILE

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
April 5, 1983

STATEMENT OF THE HONORABLE ROGER W. MEHLE
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON FEDERAL CREDIT PROGRAMS OF THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to present the Administration's views on Federal Financing Bank (FFB) operations, the FFB role in Federal credit activities, and the budget treatment of FFB and of the programs it finances. My prepared statement discusses briefly the ten specific points you asked us to address in your letter of February 23, but I will be happy to elaborate in response to any remaining questions you may have. Before addressing these specific points, I will make a general statement of the Administration's policy regarding FFB and the budget.

The Administration has conducted an extensive review of FFB in the broader context of overall Administration budget and credit program policies. That review led to the adoption of two important principles. First, the Administration supports a consolidated cash budget; and, second, the Administration

R-3012

the Administration has concluded that, over time, all Federal debt operations should be consolidated within the Treasury Department and FFB. Thus, the budget should include all of the Government's cash outlays to the public, including outlays to the public by FFB; and all agencies should, over time, be required to finance fully guaranteed obligations through FFB rather than in the securities markets.

With regard to the first principle, FFB is a Federal agency, so transactions between FFB and other Federal agencies are intragovernmental transactions and thus should not affect the budget totals. But when an agency guarantees loans made by FFB to the public those outlays should be included in total budget outlays. This budget principle would not be served by including FFB outlays, as such, in the budget totals, since most FFB outlays are to other Federal agencies rather than to the public.

The question then is not whether FFB should be included in the budget but whether Federal outlays should be included in the budget, and our answer to this question is yes. To accomplish this it would be necessary to delete the requirement in section 11(c) of the Federal Financing Bank Act of 1973 that FFB transactions not be included in the budget totals.

The Administration has also concluded that outlays incurred to finance programs of agencies using FFB must be charged to the user agencies, not to FFB. The purpose of including all Federal outlays in the budget totals is to subject such outlays to the discipline of the budget-appropriations process. This discipline can only be effective when applied

to the agencies authorized by Congress to make the commitments that later result in Federal outlays. Thus, agencies authorized to make or guarantee loans which are financed by FFB should include such proposed outlays in their budget requests in the normal budget-appropriations process. FFB itself should not be duplicating this process by seeking appropriations to finance loans for which Congress has already appropriated funds to another Federal agency.

With regard to the second principle adopted by the Administration, any obligation which is issued, sold, or guaranteed by a Federal agency and is backed by the full faith and credit of the United States clearly should be financed by FFB rather than in the securities markets. This principle was, in fact, the primary justification for the Federal Financing Bank Act of 1973, and it is essential to the efficient management of the Federal debt. I will discuss this in detail as I now turn to the ten specific points you asked me to address.

1. Overview of FFB operations

FFB was established by the Federal Financing Bank Act of 1973, at the request of the Treasury, to deal with severe debt management problems resulting from years of off-budget financing which had flooded the Government securities market with a variety of Government-backed securities. These securities were financed outside the Treasury by various Federal agencies in the form

of direct agency issues, sales of loan assets, and guarantees of obligations of private borrowers. Although the securities were backed by the Government they sold at relatively high interest rates and fees, they competed with Treasury securities, undermined Treasury debt management policies, created serious marketing problems, and placed Treasury in a position of being required to sanction or approve agency financings on terms which Treasury believed did not reflect the full value of the Government backing. That proliferation of Government-backed securities was very costly to the Government, in part because of higher transaction costs and in part because the less competitive market for the securities resulted in higher profits to investors and investment bankers.

The FFB Act was essentially a debt management reform, not a budget reform. That is, the FFB was authorized to purchase any obligation issued, sold, or guaranteed by any Federal agency and thus to consolidate the financing of both budget and off-budget programs and reduce the costs of financing these programs. The FFB Act did not change, however, the budget treatment of the programs financed by the FFB.

FFB was a response to a need to control and rationalize financing of Federal programs, primarily credit assistance programs. This need arose from three basic trends: (1) the rapid growth of Federal credit assistance programs; (2) the shift from direct loans (on-budget) to Government guaranteed loans (off-budget); and (3) the shift from Government guaranteed loans financed by local lending institutions to Government guaranteed obligations financed directly in the securities markets. These

trends have continued and have contributed to the explosive growth of Federal guarantee programs which has occurred in recent years.

FFB net lending activity in FY 1982 totaled $17 billion including $14 billion of off-budget lending and $3 billion of loans to Federal agencies whose expenditures of funds borrowed from FFB are included in the budget. At the end of FY 1982, the FFB portfolio totaled $124 billion including $98 billion of loans to off-budget entities and $26 billion to on-budget programs. The table attached to my statement presents FFB holdings at the end of FY 1982.

2. FFB's operations as originally conceived, and their subsequent evolution

The 1973 Act authorized the FFB to borrow directly in the market or from the Treasury. The Act limited FFB market borrowings to $15 billion. FFB borrowings from Treasury were not specifically limited; but, since Treasury is required to borrow in the market in order to lend to the FFB and since Treasury borrowings are subject to the statutory public debt limit, FFB borrowings from Treasury are effectively subject to the overall public debt limit.

The FFB issued one security in the market, an 8-month bill on July 30, 1974. All subsequent FFB borrowings have been directly from the Treasury. The 1974 bill issue traded in the market at about 3/8 of one percent above Treasury issues of comparable maturity. Treasury then decided that the FFB should be financed

directly by the Treasury, to avoid the additional cost to the Government of FFB market financing and to minimize the market impact of Treasury/FFB financing.

As to FFB's lending activities, there is a misconception that FFB purchases of various guaranteed obligations were not intended by the FFB Act of 1973. Treasury made it clear in the legislative history of the FFB Act that FFB's primary purpose was to finance federally-guaranteed obligations, including agency sales of guaranteed loan assets, as well as to finance direct Federal agency borrowing. The FFB Act expressly authorizes such financing of guaranteed obligations, which has comprised, since the early days of FFB's operations, the preponderant share of FFB lending activity. The legislative history of the FFB Act shows that the recognized primary need for FFB was to deal with the then growing problem of the inefficiency of market financing of guaranteed obligations, including sales of guaranteed agency assets.

3. FFB role in financing "off-budget" government spending

To put FFB activity into perspective, it is useful to compare it with overall Federal Government financing requirements and the "off-budget" component of the total. The President's budget submitted in January provides for $307 billion of net Federal and federally-assisted borrowing from the public in FY 1984. This consists of $189 billion to finance budget programs, including $3 billion financed through FFB. The remaining $118 billion of Federal and federally-assisted borrowing to finance spending

outside the budget includes: (1) $10 billion of net borrowing to finance loan guarantee programs through FFB; (2) $4 billion of other off-budget Federal spending programs, largely the Strategic Petroleum Reserve and Postal Service; (3) $49 billion of net private borrowing to finance guaranteed obligations, such as GNMA mortgage-backed securities, which are financed in the securities market rather than through FFB; and (4) $55 billion of net market financing for the Government-sponsored agencies, such as the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Farm Credit System, whose obligations are not guaranteed by the Government. FFB thus accounts for only a small proportion (about 9 percent in FY 1984) of Federal and federally-assisted financing for spending outside the budget.

3a. FFB role in removing from budget outlays the amounts paid by the FFB to purchase Certificates of Beneficial Ownership collateralized by agency direct loans.

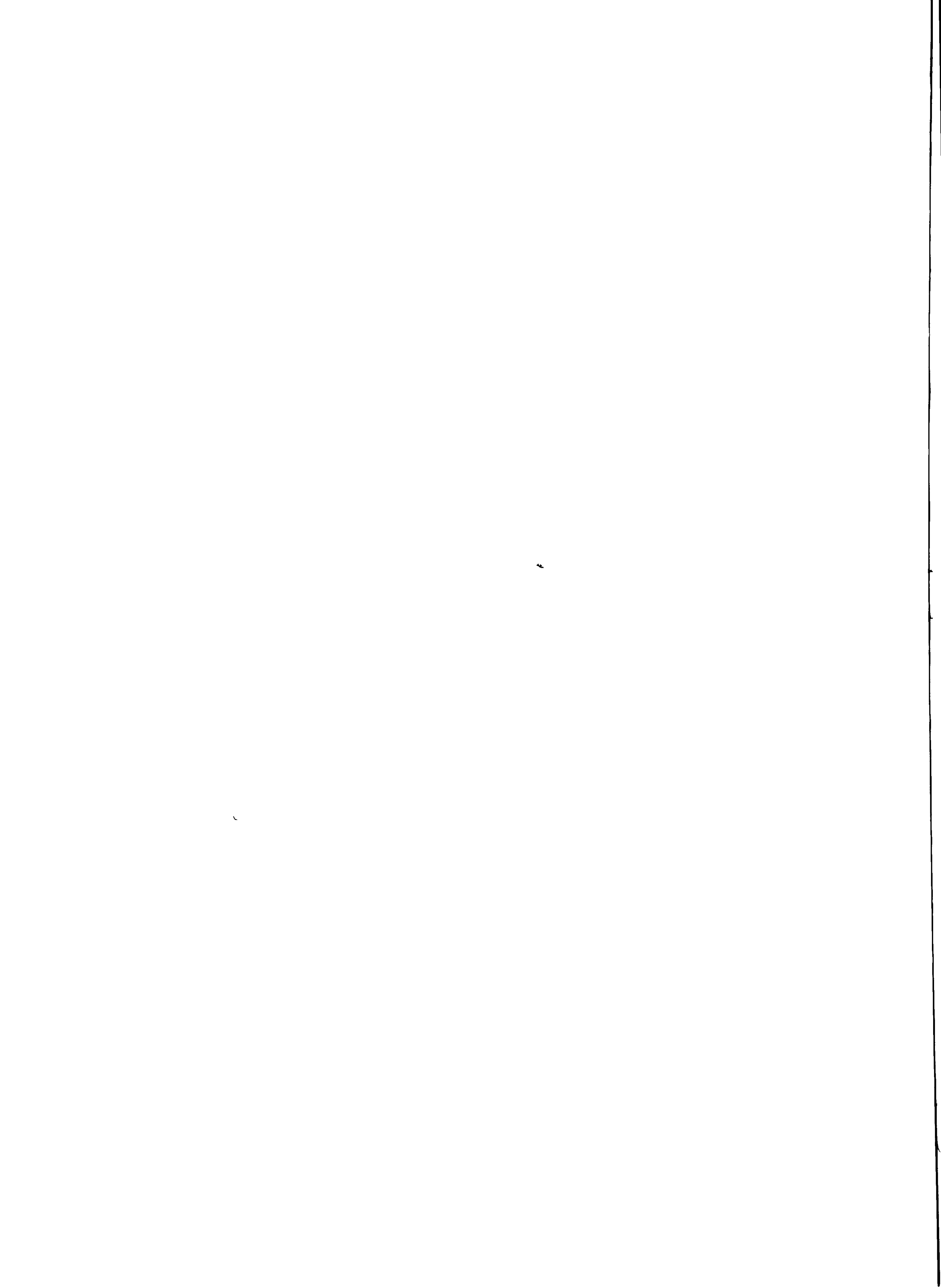
FFB purchases loan assets in the form of Certificates of Benefical Ownership (CBOs) from two Federal agencies: (i) the Farmers Home Administration (Farmers Home), which accounts for over 40 percent of the FFB loan portfolio; and (ii) the Rural Electrification Administration (REA). These assets were sold directly in the market in the form of fully guaranteed CBOs prior to the existence of FFB. Since the Farmers Home and REA statutes provide for expenditure offsets in the event of asset sales, the budget treatment of those asset sales is no different if CBOs are sold to FFB or in the market. Yet there is an actual budget saving when assets are sold to FFB, because the FFB interest rate is lower than rates of interest that would be charged in the securities markets. In the Farmers Home and REA

programs, the law provides that certain eligible borrowers will pay a below-market rate of interest, such as 5 percent. The agency that sells assets typically pays out of its budget the difference between the low interest rate paid by the borrower and the higher FFB, or market, rate of interest. Financing through FFB narrows the interest differential payment.

FFB also purchases whole loans from the Public Health Service (PHS) under the Heath Maintenance Organization program, and those loans are fully guaranteed as to timely payment of principal and interest. The PHS transaction with FFB, which is also treated as an expenditure offset in the budget, results in a higher price paid to PHS for its loans than would be the case if those assets were sold in the private market.

3b. FFB role in transforming an agency's loan guarantee into a direct, FFB-financed loan off-budget

While the myth seems to persist that guaranteed loans are substantially different from direct loans and involve less Government intervention in traditional borrower-lender relationships, this is not so. For both direct and guaranteed loans, the Government assumes the credit risk and private investors are the ultimate lenders. Direct loans are financed by Treasury issues of U.S. obligations to the same private investor groups that acquire U.S. guaranteed obligations. Therefore, every dollar of Government guaranteed debt financed in the public marketplace is like Treasury borrowing to finance direct loans and has a similarly adverse impact on private sector rates.



Most loan guarantee programs are financed directly in the private credit markets, and most of such financings are not controlled by the Treasury. Of the $59 billion estimated net increase in guaranteed loans in FY 1984, programs financed by FFB will account for $10 billion; GNMA mortgage-backed securities account for $31 billion; FHA and VA whole mortgages are about $14 billion; and the remaining $4 billion net guarantees are for smaller programs such as HUD public housing, Export-Import Bank export financing and MarAd ship construction.

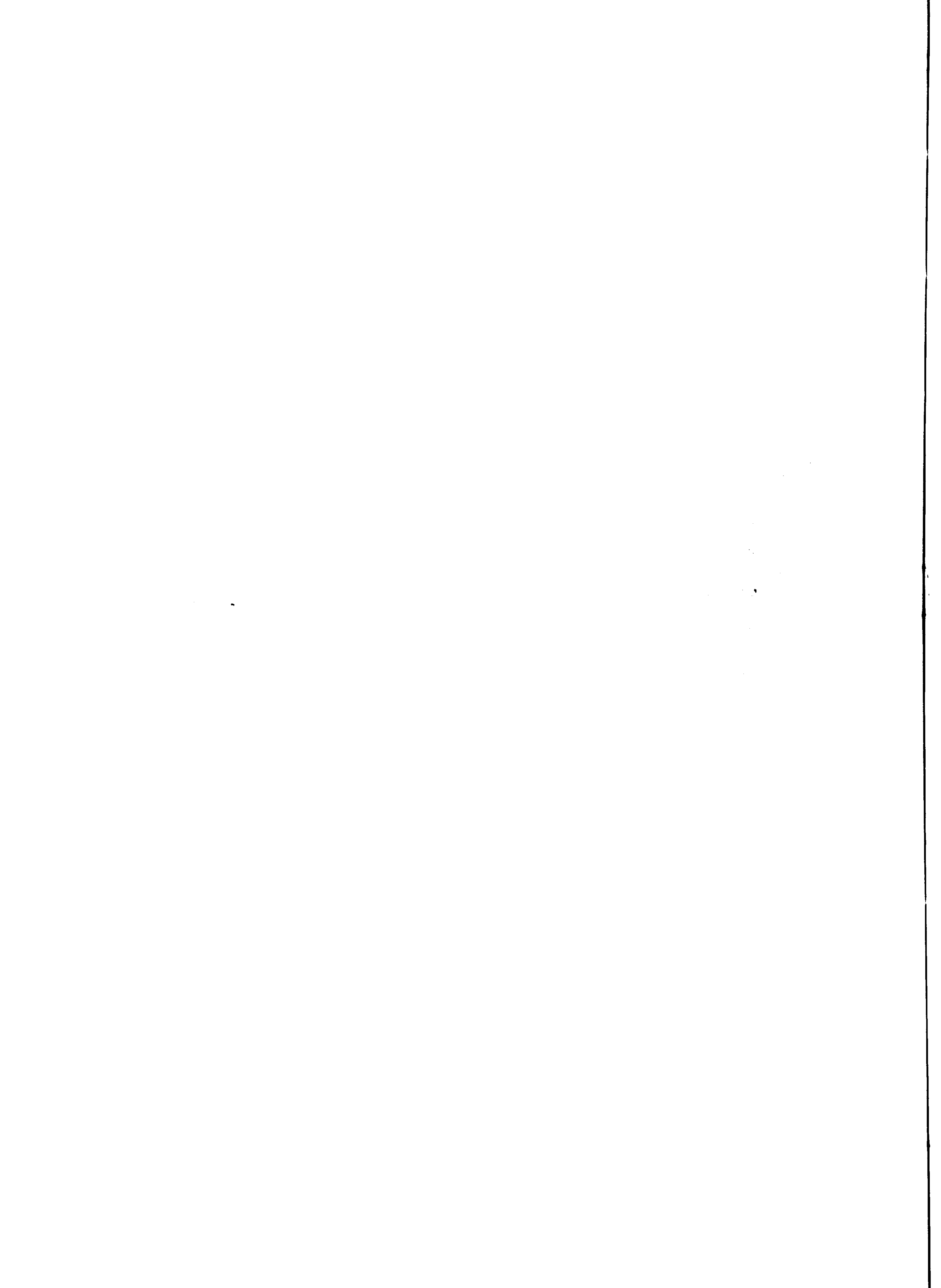
A guaranteed loan may be termed a direct Government loan when FFB provides the financing but this characterization only obscures the underlying issue. FFB does not increase the amount of financing coming to market; it only accomplishes the task more efficiently. Nor does FFB financing of guarantees result in any increase in the Federal Government's contingent liability on these guarantees. In fact, the contingent liability is reduced since the guarantor agency will be liable for interest at a lesser rate than a private lender would charge, in the event of any default.

4. <u>FFB's role in the expansion of Federal credit activities</u>

While the FFB's primary function is debt management, FFB has served to facilitate the control of Federal credit programs. By consolidating the borrowing of various agencies, FFB has made the problem of unrestrained growth in Federal credit more visible and has underscored the need for more effective control. The extraordinary growth of loan guarantee programs is attributable to the erroneous view that meeting growing constituent demands for Federal assistance could be accomplished without pain or

cost through the provision of off-budget loan guarantees and agency sales of loan assets on a recourse basis. These programs would have grown as much or possibly even more without FFB, because they would have been financed off-budget directly in the Government-guaranteed securities market (at a greater direct cost to the Government), as they were before the FFB was established. Also, the FFB has served to bring to the attention of Congress the true nature and aggregate impact of these programs and has led to many important investigations and studies, including this hearing, which hopefully will in turn result in greater restraints on the future growth of these programs.

It should be recognized that a major stimulus to the growth of loan guarantee programs is the profit incentive of investment bankers and related private institutions to finance them in the market. FFB eliminates this incentive and, in this way, acts to curb the growth of guarantees. I know this to be an important factor from my own previous experience as an investment banker. Prior to the establishment of FFB, there was a very strong profit incentive for the investment banking industry to promote the growth of guarantee programs, and to take initiatives to establish new programs, since such guarantees would shift the financing from commercial banks to the securities market and provide new sources of income for investment banking services, such as financial advisory fees and underwriting profits. While investment bankers realize some profits from trading in



the Treasury securities issued to finance FFB, such profits are insignificant relative to the profit from marketing new issues of obligations guaranteed by other Federal agencies. Yet, to its credit, the investment banking industry testified in favor of the establishment of FFB in 1973, apparently recognizing that financial markets generally would benefit more if the Government got its financial house in order.

In fact, without FFB, the $17 billion of net FFB lending in fiscal year 1982 would have been financed by $17 billion of securities market financing by Federal agencies using direct issues and various forms of guaranteed market issues, asset sales, loan poolings, lease financing, and other devices which the agencies used prior to the establishment of FFB. Such financing techniques are far more costly to the Government.

Nevertheless, FFB is sometimes a scapegoat for the Federal credit program control problems which have arisen. It is a common misconception that the FFB, because of its off-budget status, is in itself a means to avoid budget control. The FFB was created strictly for the purpose of reducing the costs of Federal and federally-assisted borrowing from the public in a manner least disruptive of private financial markets and institutions. The FFB itself does not affect either the budget status or the authorized program level of the agencies using FFB. Within the Administration, the actual allocation of budget and credit resources to various agencies and programs is determined

through the budget process. Therefore, efforts to control off-budget credit programs should be focused on the programs themselves, rather than on the FFB.

5. Current FFB lending practices, including the reasons for and desirability of the current policy of "accepting all comers" who are authorized to seek FFB financing of their activities

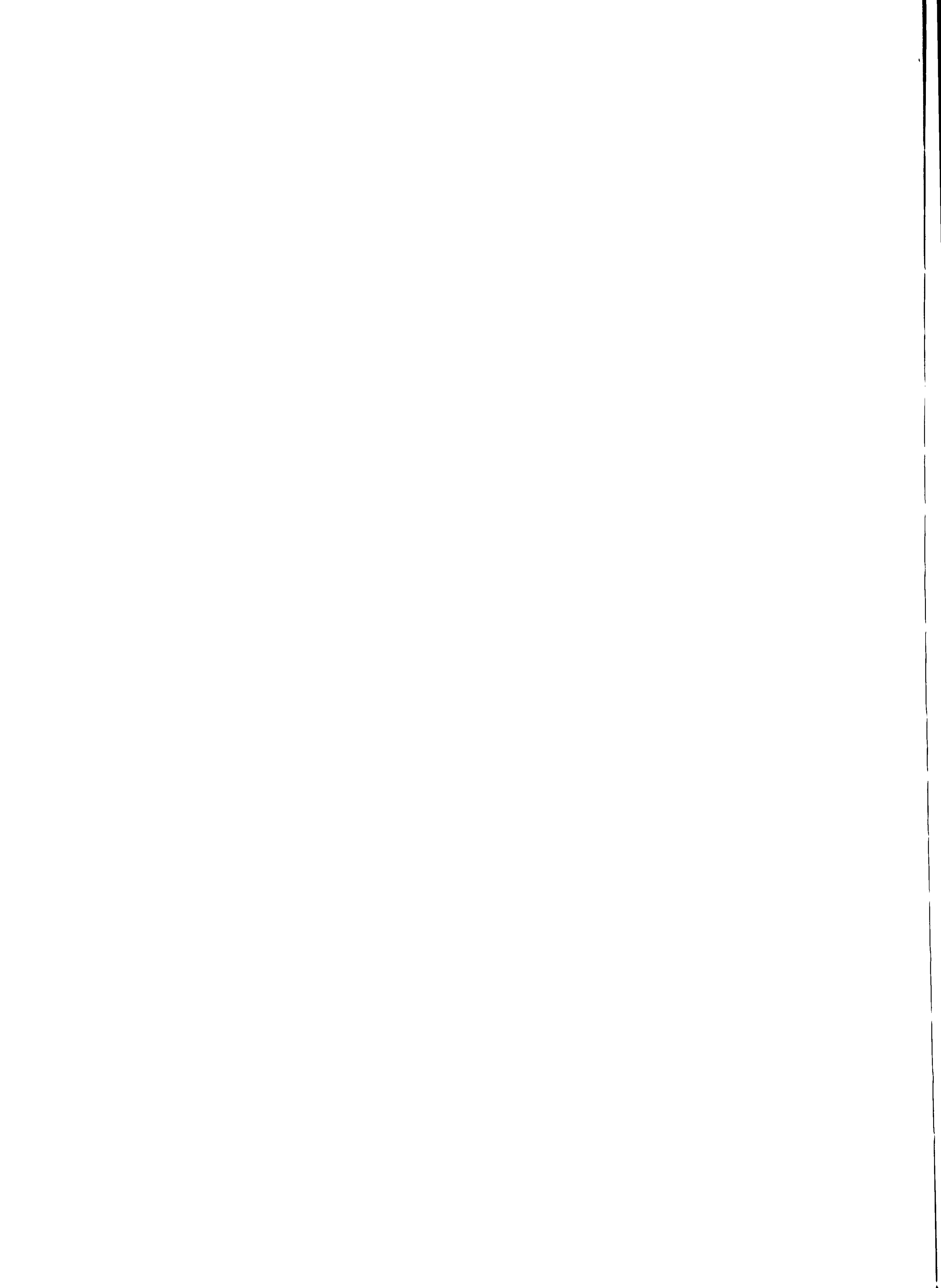
Under Section 6 of the FFB Act, FFB is authorized "to purchase and sell on terms and conditions determined by the Bank, any obligation which is issued, sold, or guaranteed by a Federal agency." To date, FFB has purchased only obligations that are direct obligations of a Federal agency or that are fully guaranteed by a Federal agency as to principal and interest. FFB's operating policy is to treat all borrowers on equal footing once the Federal guarantee is in place, unless there is a statutory directive to do otherwise. It should be noted, however, that FFB charges more than its standard spread over the interest rate at which FFB borrows from Treasury in instances where FFB is requested to purchase obligations that include unusual (for FFB) prepayment or other non-credit risks or loan servicing requirements.

FFB was established merely as a financing mechanism for programs that provide Federal credit assistance. The FFB practice of purchasing obligations from any eligible borrowers demonstrates FFB's neutrality in financing agency programs. If FFB were to differentiate among fully guaranteed borrowers, for example by denying access to FFB or by charging higher interest rates to some borrowers than to others, FFB would be in a position of allocating credit among programs that are authorized by the Congress and administered by other Federal agencies.

Currently, FFB's standard loan terms call for the FFB rate to be set at one-eighth of one percentage point above the prevailing Treasury market rate for obligations with similar payment terms and maturity dates. After deduction for relatively insignificant FFB administrative expenses, FFB's earnings are returned to the General Fund of the Treasury. In fact, FFB has returned $784 million of surpluses to the Treasury since it began operations in 1974.

Since the FFB rate is lower than rates that would be charged on similar guaranteed obligations financed in the private market, there has been concern that the interest cost saving afforded to Federal programs using FFB financing provides an additional and unwarranted incentive to borrow and may increase further the demands for expanded and new guarantee programs. Yet the bulk of the interest rate saving made possible by FFB financing is now captured by the Federal Government, in addition to the return of FFB surpluses mentioned above.

FFB purchases direct debt issues from Federal agencies as well as loans that these agencies have made to private borrowers. These activities constitute the bulk of FFB lending operations. If the agencies were required instead to sell their debt issues or loan assets directly in the private market, they would pay higher interest rates or realize lower sales prices which would add to budget outlays of the agencies and to total outlays in the President's budget. In most asset sales, the agencies make loans at below market rates and pay the difference between the loan rate and the FFB rate with appropriated funds.



FFB also makes loans under programs in which Federal agencies guarantee borrowings of non-Federal entities. Yet, even in this second group of beneficiaries of consolidated financing through FFB, much of the saving is realized by the Government, rather than by the guaranteed borrowers. An extreme case is the HUD guaranteed public housing program, where all of the saving goes to the Government, rather than to the guaranteed borrowers since all interest costs for public housing projects are borne by the Government. If, in cases where guaranteed loans financed by FFB actually reduce costs to private borrowers somewhat below the costs of guaranteed financing in the market, it is determined that this added interest rate saving should not be passed on to guaranteed borrowers, guarantee fees could be increased or other devices could be used to offset the benefit of FFB financing, rather than removing the program from FFB.

An alternative approach would be for FFB to raise the interest rate it charges its borrowers. Yet, as indicated above, in many programs this would require an increase in budget outlays by Federal agencies issuing, selling, or guaranteeing obligations purchased by FFB, while the interest rate charged the private borrowers whose loans are financed by FFB would not necessarily increase. In such cases, the net effect would be an increase in total budget outlays and, when the additional FFB profits are turned over to the Treasury, a corresponding increase in total budget receipts. Clearly, the better approach would be to require each agency using FFB to charge higher interest rates or fees to the private sector borrowers financed by FFB. In this way,

responsibility for program subsidies or costs would remain in the appropriate committees of Congress. Borrowers in Congressionally approved guarantee programs would be assured a source of financing at reasonable rates, and Treasury's debt management objectives would be met without FFB involvment in program decisions and duplication of the functions of the program agencies.

6. Reasons for and the desirability of leaving the FFB itself off-budget

Putting the FFB in the budget simply as an aggregate limit could place FFB in the position of allocating FFB credit among competing Federal programs. In the event that the FFB aggregate credit limit was not sufficient to meet all demands, agency program managers would revert to less efficient forms of financing. Pressures on program managers to reduce budget outlays would be irresistible and would be likely to lead to pressures for a mass exodus from the Bank into the credit markets. We would return to the chaotic market conditions of the early 1970's which led to the establishment of FFB. Today, Treasury and federally-assisted borrowing from the public combined is nearly seven times the 1973 dollar volume, a fact that emphasizes the critical inportance of efficient Federal debt management.

A positive requirement that FFB transactions, as such, be included in the budget, as opposed to simple repeal of statutory language in the FFB Act that excludes FFB transactions from the budget, could override the normal budget accounting rules, under which transactions among Federal agencies are not reflected in budget totals. In that event, there would be double counting in the budget totals. Specifically, FFB loans to on-budget Federal

agencies would be counted twice in the budget, thus inducing such agencies to resume borrowing directly in the market. FFB purchases of obligations of off-budget agencies, assets sold by Federal agencies, and guarantees by Federal agencies, on the other hand, would be counted only once.

Accordingly, legislation to include in the budget any programs now financed off-budget by FFB should require that the budget outlays be attributed to the program agencies rather than to FFB.

7. <u>The Administration's proposal to change the budgetary treatment of CBO sales by the Farmers Home Administration to the FFB</u>

As I discussed earlier, current law provides that asset sales in the form of CBOs sold by Farmers Home and REA are to be treated as expenditure offsets rather than as a means of financing budget outlays. The CBO form of asset sale permits the selling agency to continue to hold and service the loans it originates, while at the same time to obtain funds for further loans. In another form of asset sale, the agency sells but continues to guarantee whole loans from its portfolio. Whole loan asset sales are conducted by the Public Health Service in sales to FFB and by GNMA and VA in sales to the market. These asset sales also are accorded budget treatment as negative outlays rather than as means of financing outlays, even though they are sold on a recourse basis and the Government remains liable to meet the obligations under the assets sold. This budget treatment is the same whether the assets are sold in the market or to FFB, and results in understatement

of expenditures and deficits in the Federal budget. In order to assure that the Federal budget more accurately reflects the total size of the Government's use of the Nation's economic resources, all agency direct lending activity should be counted in budget outlays. The proceeds of any asset sales should not be treated as expenditure offsets or negative outlays; sales in CBO form and in guaranteed whole loan form should be counted as a means of financing the deficit. Only sales of whole loans that are not guaranteed should be counted as receipts that would reduce the deficit.

8. FFB's views on the proposal by Senator Proxmire, embodied in S. 711 to change the budgetary treatment of certain Federal credit activities. Alternative ways to achieve the same goals which might be preferable.

S. 711 would further the Administration's broader goals to provide better controls over all guarantee programs and also minimize the costs to the Government of financing these programs. To do this we need to distinguish among three major issues: (1) program control, (2) budget treatment and (3) method of financing.

The "credit budget" submitted to Congress by the Administration provides for control over the level of loan guarantee commitments by the Budget and Appropriations Committees. Under this approach loan guarantee programs continue to be excluded from budget outlays, but are subject to essentially the same appropriations process that has been applied to direct loans which are included in the budget totals. Since there is no difference in substance between a direct loan and a guaranteed loan, guaranteed loans should be subject to the same scrutiny as direct loans. This is an important step forward, and I am pleased to note that this

approach has been adopted in the Congressional budget resolutions and appropriations Acts. We have clearly achieved a consensus that all Federal programs, including off-budget programs, should be subject to more effective controls through the appropriations process.

S. 711 would expand the coverage of the Federal budget to include the amount of financing provided by FFB in the outlays of each program. Certain types of guaranteed loans would be required to be financed by FFB, based on certain findings by the Secretary of the Treasury. Other guaranteed loans would be financed outside of FFB. The bill explicitly addresses the genesis of the problem of growth of credit programs by including agency programs in the budget, rather than by limiting the resources available to the financing mechanism, the FFB, for those programs. The requirement that agency programs be financed by FFB, with exceptions to be determined by the Secretary of the Treasury, would prevent agencies from financing in the private market as a means to avoid budget scrutiny. In this regard, Treasury supports the provisions of S. 711 but with technical amendments to clarify the budget accounting and the scope of the Secretary of the Treasury's determinations.

S. 711 recognizes that it is not feasible to prescribe by statute which obligations should be financed by FFB. Requiring all guaranteed obligations to be sold only to an on-budget FFB would clearly be inappropriate. For example, FFB should not be the initiator of small and administratively-cumbersome FHA and VA mortgages and guaranteed student loans, business that FFB was

not intended, nor is it now equipped, to undertake. A more limited requirement that FFB purchase market-type guaranteed securities issues, as suggested in S. 711, would be administratively feasible if the Secretary of the Treasury were provided sufficient discretion to determine which securities were appropriate investments for the FFB.

Section 3 of the FFB Act defines "guarantee" as "any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any obligation." This definition has been broadly interpreted to include a wide variety of obligations guaranteed or insured by Federal agencies, including obligations secured by Federal agency lease payments and obligations acquired directly by Federal agencies and sold to FFB subject to an agreement that the selling agency will assure repayment in the case of default of the non-Federal borrower. In addition, this definition has been interpreted to include guaranteed obligations which are supported by Federal agency commitments to make debt service grants, price support agreements, commitments to make a direct loan in the event of default on a private obligation, and other contractual arrangements which provide support equivalent to an outright guarantee. It is essential to preserve the broad definition of "guarantee", especially if guaranteed loans financed by FFB are to be included in the budget.

Effective Federal guarantees result when Federal agencies enter into contracts, rentals, leasing, billing, and other arrangements which are, in effect, pledged to secure in whole or in part the repayment of loans made by private lenders to project sponsors.

FFB should not purchase partially guaranteed securities. While existing law authorizes such purchases by FFB, and this flexibility is necessary to deal with situations where the guaranteed portion of a loan is financed separately, to date FFB has purchased only Federal agency obligations and obligations that are fully guaranteed as to principal and interest. By purchasing the non-guaranteed portions of partially guaranteed obligations, FFB would be forced to assess the creditworthiness of borrowers guaranteed by other Federal agencies and thus, would duplicate the functions of the guarantor agencies. Such purchases would also place the Government more at risk than was intended by Congress when it enacted provisions which limit guarantees to less than total principal and interest. We would be happy to work with your subcommittee to amend S. 711 to avoid these problems.

9. Pros and cons of direct limits on either FFB's direct lending and borrowing activities each year, or on the total FFB debt outstanding

Limitations on Federal agencies' direct spending and borrowing and on authorizations to guarantee loans in Congressional budget resolutions and appropriations Acts are the most effective means to control Federal credit programs. With regard specifically to FFB, all FFB borrowing is done through the Secretary of the Treasury, and, as you know, Treasury debt is subject to the statutory debt limit under the Second Liberty Bond Act. Thus when the Congress

reviews the need for increases in the debt limit, it has the opportunity to review FFB activity and financing requirements. Subjecting FFB to direct limits either on lending or borrowing without also limiting and setting priorities for entities that use FFB, would in effect put FFB in the position of allocating credit resources, a job that FFB could not appropriately perform. Furthermore, depending on restrictions placed on program agencies, an agency conceivably could finance a portion of its program in the market once the FFB limit was reached, thereby defeating FFB's purpose.

10. Suggestions, if any, to strengthen FFB's cost-saving functions

With regard to your tenth, and final, question, Mr. Chairman, FFB's cost-saving functions woud be strengthened by expanding FFB to include certain fully guaranteed obligations that are now financed directly in the securities markets. A Federal guarantee creates an instrument that is the credit-risk equivalent of a Treasury security. Yet guaranteed obligations are sold in the market at yield premiums over Treasury securities as a result of their relative trading illiquidity, smaller size of issues, and discrete terms that distinguish them from Treasury issues and each other. Recent market issues of securities fully guaranteed by the Maritime Administration, for example, have been priced at 1 to 1 1/2 points in yield above Treasury securities of comparable maturity. Also, tax exempt notes guaranteed by HUD are now financed in the market at a significant cost to the Government, both from the tax losses and the higher financing costs from

this less efficient marketing technique. Clearly, each of these programs could be financed at less cost through FFB. Since there is no economic difference between a guaranteed loan and a direct loan by FFB or another Federal agency, there is no reason to incur higher costs for financing guarantee programs in the private markets.

Mr. Chairman, this concludes my formal statement. I will be happy to respond to the Subcommittee's questions.

Attachment

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FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	September 30, 1982	Net Change 10/1/81-9/30/82
On-Budget Agency Debt		
Tennessee Valley Authority	$ 12,285.0	$ 1,411.0
Export-Import Bank	13,953.9	1,544.6
NCUA-Central Liquidity Facility	130.1	28.8
Off-Budget Agency Debt		
U.S. Postal Service	1,221.0	-67.0
U.S. Railway Association	194.9	-20.1
Agency Assets		
Farmers Home Administration	53,736.0	4,915.0
DHHS-Health Maintenance Org.	131.0	14.6
DHHS-Medical Facilities	145.7	-4.7
Overseas Private Investment Corp.	21.5	-5.1
Rural Electrification Admin.-CBO	3,123.7	528.4
Small Business Administration	58.1	-9.3
Government-Guaranteed Loans		
DOD-Foreign Military Sales	11,435.8	2,288.2
DEd.-Student Loan Marketing Assn.	5,000.0	700.0
DOE-Geothermal Loans	36.6	19.6
DOE-Hybrid Vehicles	-0-	-2.0
DOE-Non-Nuclear Act (Great Plains)	340.0	340.0
DHUD-Community Dev. Block Grant	117.0	42.7
DHUD-New Communities	33.5	-0-
DHUD-Public Housing Notes	1,624.3	695.8
General Services Administration	420.5	7.9
DOI-Guam Power Authority	36.0	-0-
DOI-Virgin Islands	29.5	-.4
NASA-Space Communications Co.	757.8	120.0
Rural Electrification Admin.	16,281.5	3,939.0
SBA-Small Business Investment Cos.	712.0	108.1
SBA-State/Local Development Cos.	48.4	43.2
TVA-Seven States Energy Corp.	1,258.0	343.8
DOT-Amtrak	855.4	75.5
DOT-Emergency Rail Svcs. Act	70.2	-0-
DOT-Title V, RRRR Act	122.8	-.8
DOT-WMATA	177.0	-0-
TOTALS*	$ 124,357.3	$ 17,057.0

*figures may not total due to rounding

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
April 5, 1983

CONTACT: CHARLES POWERS
(202) 566-2041

TREASURY DEPARTMENT ANNOUNCES UPCOMING INCOME TAX TREATY NEGOTIATIONS WITH THE PEOPLE'S REPUBLIC OF CHINA

The Treasury Department announced today that negotiation of a treaty between the United States and the People's Republic of China to avoid double taxation of income will take place in Beijing during the week of May 3, 1983. The negotiations will continue discussions initiated in Washington in September 1982.

The negotiations will be based on the U.S. model draft income tax treaty and will also take into account the model draft income tax treaties published by the Organization for Economic Cooperation and Development (OECD) in 1977 and by the United Nations Ad Hoc Group of Experts on Tax Treaties between Developed and Developing Countries.

It is intended that the proposed treaty cover the taxation of income from business activities, personal services, and investments derived from one country by residents of the other; that it provide for administrative cooperation to avoid double taxation and fiscal evasion; and that it specify the method to be used by each country to avoid double taxation.

Interested persons are invited to submit comments in writing to Leslie J. Schreyer, Deputy International Tax Counsel, Room 4013, U.S. Treasury, Washington, D.C. 20220.

This notice will appear in the Federal Register of April 6, 1983.

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R-3013

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
April 6, 1983

Testimony of the Honorable Donald T. Regan
Secretary of the Treasury
Before the
Senate Committee on Banking, Housing and Urban Affairs

Mr. Chairman and members of this distinguished Committee:

I appreciate this opportunity to review with you the current state of our domestic financial system and the current issues affecting the system which this Committee must address. Since my last discussion with the Committee on these subjects in April 1981, the condition of our domestic financial institutions and financial markets has greatly improved. A better economic environment is responsible for much of the improvement, but there is also clear evidence that the deregulatory efforts of Congress and the Administration in the Garn-St Germain Depository Institutions Act of 1982 and regulatory actions by the Depository Institutions Deregulation Committee (DIDC) have strengthened the financial system and significantly benefitted consumers. I hope that we can build on this record in the current session of Congress.

CONDITION OF THE FINANCIAL MARKETS

Two years ago, when I was testifying before this Committee, our financial markets and financial institutions were struggling with severe inflationary pressures. The major problem area involved thrift institutions (savings and loan associations and mutual savings banks) and to a lesser extent small commercial banks whose primary business was financing housing. These institutions had structural problems in the mismatch of their asset and liability portfolios. This made it difficult for them to cope with the very high interest rates that resulted from uncontrolled inflation.

R-3014

At that time, I testified that the Administration recognized that the persistently high rate of inflation was the primary cause of the eroding net worth of thrift institutions. Thrifts were forced to use an increasing amount of short-term deposit liabilities with interest rates that vary with market rates to carry low-yielding, fixed-rate, long-term mortgages made in prior years. This situation, which resulted in the average cost of funds exceeding the average yield on investments, was reducing the thrift industry's net worth by 5 to 10% per year.

As I am sure you are aware, the Administration's economic policies have been successful in reducing the rate of inflation. The Consumer Price Index gained only 3.9% last year and may rise even less in 1983. These increases are well below the double digit gains of 1979 and 1980 and the 9% gain in 1981. The reduction in the rate of inflation has been reflected in lower short-term interest rates. Three month Treasury bill rates have averaged 8.1% in the first three months this year, compared to average rates of 10.6% in 1982 and 14.0% in 1981 when the Administration took office. Lower interest rates and the continued expectation of a low rate of inflation have just begun to be reflected in the net income figures of thrift institutions and should have a very positive influence on income growth in 1983. If short-term interest rates remain at present levels or decline further over the next few years, as we anticipate, thrift institutions should be able to rebuild their net worth substantially from improved earnings. Other financial institutions continue to perform satisfactorily but would certainly do better as the economy gathers momentum.

RECENT AND PROPOSED LEGISLATIVE INITIATIVES

In addition to successfully reducing inflation and interest rates, the Administration worked closely over the past two years with this Committee to develop legislation that would not only provide short-term assistance to troubled thrift institutions but also would further the necessary restructuring of the industry so that it can adjust to future changes in the economy more readily. This combined effort resulted in the Garn-St Germain Act. The Act gives thrift institutions a broader range of powers, including some commercial loan and expanded consumer loan authority for savings and loan associations. The new powers will help these institutions to develop shorter maturing, variable rate assets whose rates can be adjusted to match the cost of deposits more quickly than the return on long-term, fixed-rate mortgages can be adjusted.

The Administration supports the goal of allowing all depository institutions ultimately to perform the same types of business. Over the next few years, thrift institutions should be authorized to increase the proportion of consumer and commercial loans in their investment portfolios. A gradual decontrol of asset powers will enable thrift institutions eventually to offer a full range of financial services to the public. The problems that have faced thrift institutions over the past two years are largely the result of prior government attempts to structure an industry by statute in ways that are not economically feasible. This Administration believes all depository institutions should have equal powers and should be free to choose whatever specialization they wish, based on their individual competitive skills and goals. The ultimate beneficiaries of this flexibility will be the users of depository institutions' services whose special needs could be more readily addressed.

Now that thrift institutions have been provided with broader consumer and some commercial and agricultural lending authority, this Committee and the Administration should work towards removing the remaining usury ceilings on depository institution loans to balance the removal of rate ceilings on deposits. In this regard, I would like to affirm the Administration's strong support for a removal of Federal and state usury ceilings as proposed in S. 730, which was introduced last month by Chairman Garn and co-sponsored by Senators Lugar and Proxmire. If this bill is passed into law and thrift institutions can make a reasonable profit on their expanded consumer and commercial loan authority, the institutions will be encouraged to develop the new asset powers.

The removal of usury ceilings would also benefit borrowers by making it easier for them to obtain credit. The Administration believes that usury ceilings only distort financial markets and credit flows and do not reduce the cost of credit to the economy. Institutions are more likely to lend to all types of borrowers if loans can be priced to reflect the risk exposure. However, as provided for in S. 730, removal of interest rate restrictions should not interfere with the states' authority to impose consumer protection provisions on credit transactions, or their ability to regulate creditors. The Administration also supports the provision in S. 730 which follows the precedent set by the Depository Institutions Deregulation and Monetary Control Act of 1980 regarding the preemption of state usury ceilings on mortgage loans. That is the precedent of giving states a three year period to reject the Federal provisions and to reimpose rate restrictions of any amount and in any form.

Depository Institutions Deregulation Committee

In 1982, the DIDC took two major actions which have effectively halted the outflow of funds from depository institutions. The DIDC, in the context of the Garn-St Germain Act, authorized depository institutions to offer an account that is "directly equivalent to and competitive with money market mutual funds". This ceiling free account, called the Money Market Deposit Account, was first offered by depository institutions on December 14, 1982. By March 16, 1983, the account had attracted about $319 billion of deposits. The huge volume of funds drawn by this account indicates that consumers are happy to keep their deposits in depository institutions, or to move their funds back into depository institutions if the funds earn market rates of interest.

Secondly, as a result of the deregulation schedule that was adopted in March of 1982, rate ceilings have been removed from deposits with a maturity of 2-1/2 years and over. In addition, a ceiling-free NOW, or transaction account, became effective on January 5, 1983. Thus, depository institutions can offer interest rate deregulated accounts for maturities under 31 days and 2-1/2 years and over.

The eventual removal of ceilings on all accounts should give depository institutions the flexibility to manage the costs and maturities of their deposits (liabilities) to best fit their loans and investments (assets). Thus, some members of the Committee have indicated that at the June DIDC meeting they might support the adoption of a proposal that would remove all the remaining interest rate ceilings on time deposits. Then, the Committee's only remaining deregulatory objective will be determining the proper timing for removing the rate ceilings on savings accounts and on NOW accounts with minimum balances under $2,500. The DIDC should probably consider removing all remaining time and savings deposit ceilings. Indeed, it may be time to consider bringing the work of the DIDC to an end.

NEW ISSUES TO BE ADDRESSED

While the achievements of the Garn-St Germain Act and the DIDC have been a good beginning, there is much more work to be done to achieve competitive equality among depository institutions and between depository institutions and other financial service firms. This will make our financial system as efficient and effective as possible, and ultimately benefit consumers. In just the last year there have been several developments which illustrate remaining distortions in the competitive powers of depository institutions.

* One year ago this month, a mutual savings bank acquired a full-service broker-dealer firm; a Federal Reserve member bank cannot do this under the Glass-Steagall Act.

* Stock savings and loan associations have been acquired by organizations not closely related to the savings and loan business as is required for banks under the Bank Holding Company Act. Increasingly, savings and loan associations have been converting from mutual to stock form; this will enable them to form holding companies which can enter any line of commerce.

* At least one state has authorized banks chartered under its laws to engage in all aspects of the insurance business, and other states have adopted similar "reforms" in their banking laws. Federally chartered banks are not permitted to engage in insurance activities or other nonbanking financial services, and bank holding companies have only very limited insurance powers.

* Banks that do not make commercial loans and thus do not come under the Bank Holding Company Act have been established or acquired by organizations outside the banking business, and their holding companies are seeking authorization to expand deposit taking activities interstate. To the extent that these banks are not member banks, the Glass-Steagall Act may not apply to the activities of their affiliates, and to the extent that the Bank Holding Company Act is inapplicable to such nonbank banks the Douglas Amendment to the Bank Holding Company Act may not apply either.

While there is no consistency and pattern in these actions, none of them is inconsistent with the language of the banking laws as they exist today. These laws were enacted at a time when the differences between financial institutions were almost self-evident and there was no need to cover contingencies that were largely hypothetical. When these laws were written neither the computer chip nor magnetic plastic cards existed. But under the competitive pressures of today's financial services marketplace, the old structures are breaking down.

These new consumer attitudes provide a substantial competitive advantage to diversified financial services firms that are not subject to the restrictions on nonbanking activities which are applicable to banks. These organizations can offer a full range of services to the consumer.

That is why the task this Committee has set for itself is so vital, and why I urge this Committee to complete its hearings and get on with revision of the banking laws as promptly as possible.

As the Committee approaches this matter, I think it is important that consideration be given to one fundamental set of questions: What is a bank? Why is it different from other kinds of enterprises? Do these differences justify special restrictive treatment, and if so of what kind? I believe most of the confusion now surrounding the regulation of depository institutions is the result of a failure to focus on these basic questions.

The Administration's view is that a bank or other Federally insured depository is a special form of financial intermediary which, as a matter of policy, should be treated differently from other commercial enterprises. The laws and policies that govern or relate to banking -- deposit insurance, comprehensive regulation and supervision, government liquidity assistance and exemptions from securities laws -- are designed to encourage savers to deposit their funds in banks, in preference to other investment media.

For their part, banks and other depository institutions should and do use these funds for the benefit of our economy as a whole -- through loans to productive and creditworthy private enterprises and through mortgage loans to homeowners. Permitting banks to make other uses of these combined savings flows -- to allow them, for example, to capitalize subsidiaries engaged in nonbanking businesses -- alters and diminishes their necessary and intended role as intermediaries between savers and productive users of credit. In addition, because so many of our policies favor the deposit of savers' funds in banks, there is also an element of unfairness in allowing banks to use these funds to capitalize businesses that compete with others who must raise their capital without government help. Finally, it is also true that permitting banks to engage in nonbanking activities, either directly or through subsidiaries, might threaten their safety and soundness by exposing them to greater risks than are already present in the business of lending.

None of this must mean, however, that banks should be wholly isolated from the mainstream of commerce. Developments in recent years have demonstrated -- especially in the financial services area -- that the ability of a single enterprise to offer a broad range of services can be important in meeting competition. For this reason, the Administration believes that banks should be able to associate themselves with organizations that may legally offer a broad range of services, so that banks may take advantage of the access to customers that such an affiliation provides.

That is why the Administration, in the last Congress, proposed the Bank Holding Company Deregulation Act of 1982 (S. 2490). We expect to introduce substantially the same proposal in this Congress. In essence, the Administration's Deregulation Act attempts to insulate banks from the risks associated with nonbanking enterprises but not to isolate them from affiliation with nonbanking activities.

The sophisticated consumer today would like to include in his savings and investments such things as a NOW account for liquidity purposes, a money market deposit account to earn a higher rate of interest on slightly less liquid funds and securities or even an insurance or annuity contract for long term savings and investment. He would like to do all these things without having to travel to several different financial institutions. He would like all the services offered at one institution and would like the ability to shift his funds from one type of investment to another.

Examples of efforts to acquire and market a broad range of financial services can be seen in Sears' ownership of a savings and loan association, a retail insurance firm and a broker-dealer (Dean Witter Reynolds); in Prudential Insurance Company's acquisition of Bache and in the acquisition by American Express of Shearson.

In the absence of a comprehensive reform of the banking laws at the Federal level, banks have apparently begun looking to the states for relief. Citicorp plans to acquire a South Dakota bank that can offer a wide range of insurance services nationwide; and other banks and other states are likely to follow suit.

This kind of deregulation -- haphazard and without consistency or an underlying concept of what is appropriate for an insured institution -- is obviously unsatisfactory. The process by which financial institutions broaden their services must be rationalized and facilitated. This Committee must address the revisions needed in Federal statutes to insure competitive equality among depository institutions, and between these institutions and other financial service firms. Let me present the Administration's views on some of the more important statutory changes we believe are desirable.

Bank Holding Company Deregulation

Under current law, nonbank financial service firms, which increasingly are competing with banks for the same customers, are less restricted than banks in the variety of products and services they can offer. Many of these firms has been diversifying

their product bases to include a broad range of services relating to securities, commodities, insurance, real estate and travel services. As a result of the one-stop convenience that diversification can provide, these firms have been drawing customers away from banks, and the banks are justifiably concerned.

The Administration submitted its Bank Holding Company Deregulation Act as a conceptual framework for permitting banks to compete fully in the financial services industry. The legislation is designed to expand the powers of bank holding companies and their subsidiaries without affecting the safety and soundness of the banks themselves.

The Administration proposal would enable banks to offer nonbank financial services now available only from other financial organizations. Similarly, these organizations doing approved business will be able to establish holding companies and own subsidiary banks. In this manner, banks and other financial organizations will be able to penetrate segments of the financial services industry that are currently separated by statute. This cross penetration should increase the total number of financial service vendors able to provide the same services, thereby expanding competition in the financial services industry and benefitting the public.

The legislation would amend the Bank Holding Company Act, and certain other banking and securities laws, to permit bank holding companies, through subsidiaries, to engage in any activities the Federal Reserve Board determines by regulation to be "of a financial nature." The bill provides that, in interpreting this phrase, the Board should give primary consideration to the public benefits that would result from increased competition in the financial services industry.

In addition, the bill would specifically authorize bank holding company subsidiaries to engage in insurance underwriting and brokerage, and real estate investment, development, and brokerage. In the securities field, the bill would permit bank holding company subsidiaries to deal in and underwrite U.S. and most state and municipal securities, including revenue bonds. They also could sponsor, control, and advise mutual funds and underwrite and distribute their securities.

In the securities area, new activities would have to be conducted through a securities subsidiary of the bank holding company, as would all securities brokerage, underwriting, and dealing activities already carried on by the bank. Only if a bank holding company did not engage in the new securities business could it continue to conduct currently authorized securities underwriting or dealing activities within a commercial bank subsidiary.

By allowing bank holding companies, rather than banks themselves, to offer a broader range of services, the Administration's proposal accomplishes certain legitimate policy objectives of bank deregulation while allowing banks to associate themselves with firms that can compete for customers with other diversified financial service firms.

As noted earlier in my testimony, banks are unique financial intermediaries affected with a public interest. As such, they are Federally supervised, have access to the Federal Reserve System as a lender of last resort and have some portion of their deposits Federally insured. We do not believe that they should directly engage in activities that are potentially riskier than the banking business. This would place a supervisory and insurance burden on the Federal government that was not intended and is not applicable to competitors offering nonbank financial services. In addition, the unique status of banks enables them to raise money in the private financial markets at a lower cost than most other borrowers. This advantage should not be extended to nonbank activities where banks are competing with independent firms that do not have the same advantage.

We also do not believe that nonbank activities should be conducted through a subsidiary or service corporation in which a bank has a direct equity investment. The investment would be at risk if the subsidiary's activities were to falter, and the funds for the investment would be raised with Federal assistance not available to nonbank competitors and at a cost advantage to the bank.

However, our proposal would permit banks which have assets of less than $100 million and are not affiliated with a holding company to conduct new and existing securities activities through a subsidiary of the bank in lieu of forming a holding company. This is intended to hold down the costs of smaller banks' entering into these activities where the amount of securities business and the risks involved are not as great. Nonetheless, we are concerned about the potentially adverse impact on small banks of ill advised subsidiary investments. Under these circumstances, we would like to consider with the Congress whether the small bank exemption is still appropriate.

While the holding company approach can insulate banks from the risks associated with nonbanking activities, it cannot prevent holding companies from misusing their control over the banks. To deal with these concerns, our proposal includes a series of provisions that regulate banks' transactions with their holding company affiliates. The principle underlying these provisions is that transactions between a bank and its affiliates must be made on substantially the

same terms and under substantially the same circumstances, including credit standards, as those prevailing at the time of the transaction for comparable transactions by the bank with non-affiliated companies. These regulatory limitations ensure that not only will banks be separated legally from the risks associated with nonbanking activities of their holding company affiliates, but that they also will avoid relationships with affiliates that would threaten banks' soundness or provide their affiliates with unfair competitive advantages through favorable financing terms or other devices.

The Administration's program contemplates that all subsidiaries of bank holding companies would be subject to regulatory supervision appropriate to the subsidiary's line of business. For example, finance, insurance and real estate activities would continue to be primarily regulated by state agencies. Securities subsidiaries would be regulated as broker-dealers or investment advisers by the Securities and Exchange Commission and state securities regulators, and also may be members of securities exchanges and the National Association of Security Dealers. The objective is to ensure equivalent treatment of functionally equivalent activities. Thus, the framework would permit a wide variety of financial organizations with very different regulatory regimes to be included under the holding company umbrella in a manner that maximizes competitive equality with independent firms.

Mr. Chairman, we believe our proposal will be fair to all the parties concerned and beneficial to the public. We believe we have the support of the banking and securities industries for the bank holding company concept. We intend to resubmit our legislation in the near future as soon as the Committee is prepared to receive it.

"Nonbank" Banks under the Bank Holding Company Act

While on the subject of bank holding company deregulation, I would like to say a word about the recent development of consumer or "nonbank" banks. The Committee probably is aware of several decisions by the bank regulators in this area that raise significant legal and policy issues under the Bank Holding Company Act. The Act's scope is determined in part by its definition of the word "bank". A bank is defined to mean an entity that takes demand deposits and makes commercial loans. The question has arisen as to whether insured depository institutions should be able to limit their deposit taking or commercial lending activities in a way that will permit them not to be subject to the Bank Holding Company Act. To date several banks have voluntarily foregone commercial lending activities in order to establish nonbank holding company structures.

We are disappointed that these organizations have found this approach to be necessary in order to compete effectively in the marketplace. We feel there is no good reason to exempt any Federally-insured bank from the application of the Bank Holding Company Act. We believe the issue should only be decided by Congress in the context of a full consideration of banking regulation -- specifically including the Administration's proposal for bank holding company financial services activities.

Geographic Restrictions on Depository Institution Activities

Over a period of many years Congress has been easing the Federal statutory restrictions on the geographic expansion of depository institution activities, particularly interstate activities. In the Bank Holding Company Act of 1956, no limitations were placed on the operation of nonbank activities across state lines if they were so closely related to banking as to be a proper incident thereto, such as consumer lending, mortgage banking, etc. In 1981 a statutory moratorium on the interstate operation of trust companies was allowed to lapse, permitting trust operations interstate. And last year the Garn-St Germain Act authorized the acquisition of failing depository institutions across state lines by other healthier organizations.

All these legislative changes have followed an even faster erosion of restrictions on interstate activities of depository institutions in the marketplace. Improved transportation and telecommunications have considerably shortened the distances over which business can be conducted from a single location. Even the most sacrosanct of limitations, commercial lending and deposit taking from retail customers, have been modified by the use of out-of-state loan production offices and deposits received by mail. It is rare for a large depository institution today not to have extensive interstate operations. For example, Citicorp and BankAmerica operate subsidiaries in almost every state. They include branches of subsidiary finance companies, Edge Act corporations and mortgage companies.

The Administration favors renewed Congressional efforts to eliminate restrictions on the geographic expansion of depository institution activities. Most such restrictions serve only anticompetitive purposes to the detriment of consumer service and convenience. We recognize the long and difficult process involved in dealing with legislation on this very controversial issue, but we are prepared to work with this Committee to further deregulate restrictive geographic barriers on the rendering of financial services, if there are reasonable prospects for the passage of such legislation.

At the same time many states are easing or eliminating their restrictions on the interstate activities of depository institutions. The New England experience is particularly interesting. Several states in that area have authorized interstate operation of institutions headquartered elsewhere in that region. Local governments familiar with local markets should be able to make sound decisions about their regional economy. Moreover, the strengthening of local institutions prior to a removal of all geographic restrictions nationwide facilitates the potential for development of more organizations able to compete nationally when the opportunity arises. This should enhance the diversity and competitive vitality of the future financial system.

Regulatory Reform

As financial service organizations offer increasingly similar products and services, the burden on them from the present multiplicity of Federal regulators also increases. In many situations a single kind of institution or transaction is governed by several Federal agencies, each applying independent and often duplicative or conflicting regulations. For example, three separate agencies regulate and examine commercial banks, five agencies (and the Department of Justice) have some responsibility regarding mergers or acquisitions involving depository institutions, three agencies provide deposit insurance and one agency regulates bank holding companies, while different agencies may regulate the subsidiaries of the same firm.

Although each part of the current system may have been created in response to specific problems or perceived needs, recent trends in the financial system as a whole have highlighted problems with the current regulatory structure. The Administration has therefore established a Task Group on Regulation of Financial Services to complete within a period of approximately nine months a review of the current regulatory system and to make a report to the President concerning any desirable areas for change.

The Vice President is Chairman of the Task Group and I am Vice Chairman. Other members are the Attorney General; the Director of the Office of Management and Budget; the Chairman of the Council of Economic Advisers; the Assistant to the President for Policy Development; the Chairmen of the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, Securities and Exchange Commission and Commodity Futures Trading Commission; and the Comptroller of the Currency.

The Task Group will develop recommendations where appropriate to improve the efficiency and effectiveness of the present regulatory system in meeting its public policy goals and to reduce the burden of regulation on financial institutions. As part of its work the Group will consider the recommendations of the Federal deposit insurance agencies in their reports requested by the Garn-St Germain Act on ways to improve the deposit insurance system. The Group has also asked for public comments to guide it in its work and has requested the views of all the regulatory agencies. We would welcome the views of this Committee either collectively or individually.

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Mr. Chairman, that concludes my testimony. I will be pleased to answer any questions the Committee may have.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. April 5, 1983

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,400 million, to be issued April 14, 1983. This offering will provide $ 950 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $11,456 million, including $1,006 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $ 2,402 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 $6,200 million, representing an additional amount of bills dated July 15, 1982, and to mature July 14, 1983 (CUSIP No. 912794 DA 9), currently outstanding in the amount of $11,845 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 6,200 million, to be dated April 14, 1983, and to mature October 13, 1983 (CUSIP No. 912794 DT 8).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing April 14, 1983. 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-3015

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 11, 1983. 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 14, 1983, in cash or other immediately-available funds or in Treasury bills maturing April 14, 1983. 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 IMMEDIATE RELEASE April 6, 1983

RESULTS OF TREASURY'S AUCTION OF 10-DAY CASH MANAGEMENT BILLS

Tenders for $3,018 million of 10-day Treasury bills to be issued on April 11, 1983, and to mature April 21, 1983, were accepted at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	99.754	8.856%	9.03%
Low -	99.750	9.000%	9.17%
Average -	99.751	8.964%	9.14%

Tenders at the low price were allotted 32%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:
(In Thousands)

Location	Received	Accepted
Boston	$ 120,000	$ 46,400
New York	16,572,000	2,432,600
Philadelphia	--	--
Cleveland	--	--
Richmond	10,000	1,600
Atlanta	--	--
Chicago	1,428,000	427,720
St. Louis	17,000	8,600
Minneapolis	--	--
Kansas City	15,000	8,200
Dallas	--	--
San Francisco	635,000	93,200
TOTALS	$18,797,000	$3,018,320

R-3016

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
April 5, 1983

Contact: Robert E. Nipp
(202) 566-2133

Treasury Announces Prices On Olympic Commemorative Proof Coins

The Treasury announced today that the ordering period for Olympic Commemorative Proof Coins at current prices will be extended until Monday, June 6, 1983. The current prices are:

* $29 for the 1983 silver dollar.
* $58 for the two-coin set containing a 1983 and a 1984 silver dollar.
* $410 for the complete three-coin set containing the two silver dollars and a 1984 gold ten dollar coin.

A charge of $2.00 for the first set plus $1 for each additional set is being made to help defray postage and handling costs. Add this amount to the total cost of the coins.

Interested buyers are invited to send a letter order and payment to:

The United States Mint
P.O. Box 6766
San Francisco, CA 94101

In the event a significant increase in bullion prices should occur, however, the Mint reserves the right to discontinue the acceptance of orders at any time. Once an order is accepted by the Mint, it will not be cancelled due to changes in bullion prices.

The Treasury also announced the closing of the reservation period for the limited three-coin uncirculated sets. Those individuals who have ordered a three-coin proof set as of April 5th have reserved their right to purchase the very limited, three-coin uncirculated set.

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R-3017

Telephone Message for Small Saver Certificate Rates

The DIDC has determined that the 1-1/2 year small saver certificate ceiling rates based on the Treasury's 1-1/2 year yield curve rate will be 9.50 % for thrift institutions and 9.25 % for commercial banks for the period April 12, through April 25, 1983.

The next announcement of the 1-1/2 year small saver certificate ceiling rates will be made on April 25, 1983.

For informational purposes only, the Treasury's 2-1/2 year yield curve rate for the five business days ending April 11, 1983, averaged 9.75 %. The DIDC will continue to make the 2-1/2 year Treasury security rate available on a biweekly basis only until such time as DIDC-mandated rate ceilings and early withdrawal penalties on time deposits are removed. Therefore, if depository instituitons write contracts based on the 2-1/2 year Treasury security rate they should do so with the understanding that this rate will not be indefinitely available from the DIDC.

TREASURY NEWS

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

STATEMENT OF THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL TRADE,
INVESTMENT AND MONETARY POLICY
Washington, D.C.
April 7, 1983

The Increase in IMF Resources: Protecting the Financial System, Safeguarding U.S. Trade and Employment

Mr. Chairman and members of the Subcommittee:

It is a pleasure to appear before you today to explain and support the Administration's proposals for legislation to increase the resources of the International Monetary Fund. After extensive consultations and negotiations among IMF members, agreement was completed in February on complementary measures to increase IMF resources: an increase in quotas, the IMF's basic source of financing; and an expansion of the IMF's General Arrangements to Borrow (GAB), for lending to the IMF on a contingency basis, if needed to deal with threats to the international monetary system. These must now be confirmed by member governments, involving Congressional authorization and appropriation in our case, in order to become effective.

President Reagan submitted the Administration's legislative proposals to the Congress early last month. As background to those proposals, I would like to outline the problems facing the international financial system, the importance to the United States of an orderly resolution of those problems, and the key role the IMF must play in solving them.

The International Financial Problem

Around the middle of last year, the serious financial problems confronting the international monetary system became front-page news -- and correctly so, since management of these problems is critical to our economic interests. The debts of many key countries (including Argentina, Brazil, Mexico, and a growing list of others) became too large for them to continue to manage under present policies and world economic circumstances. In response, lenders began to retrench sharply, and the borrowers have since been finding it difficult if not impossible to scrape together the money to meet upcoming debt payments and to pay for essential imports. As a result, the international financial and economic system is experiencing strains that are without precedent in the postwar era and which threaten to derail world economic recovery.

R-3018

There is a natural tendency under such circumstances for financial contraction and protectionism -- reactions that were the very seeds of the depression of the 1930s. It was in response to those tendencies that the International Monetary Fund was created in the aftermath of World War II, largely at the initiative of the United States, to provide a cooperative mechanism and a financial backstop to prevent a recurrence of that slide into depression. If the IMF is to be able to continue in that role, it must have adequate resources.

The current problem did not arise overnight, but rather stems from the economic environment and policies pursued over the last two decades. Inflationary pressures began mounting during the 1960's, and were aggravated by the commodity boom of the early 1970's and the two oil shocks that followed. For most industrialized countries, the oil shocks led to a surge of imported inflation, worsening the already growing inflationary pressures; to large transfers of real income and wealth to oil exporting countries; and to deterioration of current account balances. For the oil-importing less developed countries -- the LDCs -- this same process was further compounded by their loss of export earnings when the commodity boom ended.

Rather than allowing their economies to adjust to the oil shocks, most governments tried to maintain real incomes through stimulative economic policies, and to protect jobs in uncompetitive industries through controls and subsidies. Inflationary policies did bring a short-run boost to real growth at times, but in the longer run they led to higher inflation, declining investment and productivity, and worsening prospects for real growth and employment.

Similarly, while these policies delayed economic adjustment somewhat, they could not put it off forever. In the meanwhile, the size of the adjustment needed was getting larger. Important regions remained dependent on industries whose competitive position was declining; inflation rates and budget deficits soared; and -- most pertinent to today's financial problems -- many oil importing countries experienced persistent, large current account deficits and unprecedented external borrowing requirements. Some oil-exporting countries also borrowed heavily abroad, in effect relying on increasing future oil revenues to finance ambitious development plans.

In the inflationary environment of the 1970's, it was fairly easy for most nations to borrow abroad, even in such large amounts, and their debts accumulated rapidly. Most of the increased foreign debt reflected borrowing from commercial banks in industrial countries. By mid-1982, the total foreign debt of non-OPEC developing countries was something over $500 billion -- more than five times the level of 1973. Of that total, roughly $270 billion was owed to commercial banks in the industrial countries, and more than half of that was owed by only three Latin American countries -- Argentina, Brazil, and Mexico. New net lending to non-OPEC LDCs by banks in the industrial countries grew at a rising pace -- about $37 billion in 1979, $43 billion in 1980, and $47 billion in 1981 -- with most of the increase continuing to go to Latin America. (See Charts A and B.)

That there has been inadequate adjustment and excessive borrowing has become painfully clear in the current economic environment -- one of stagnating world trade, disinflation, declining commodity prices, and interest rates which are still high by historical standards. Over the past two years, there has been a strong shift to anti-inflationary policies in most industrial countries, and this shift has had a major impact on market attitudes. Market participants are beginning to recognize that our governments intend to keep inflation under control in the future and are adjusting their behavior accordingly.

In most important respects, the impact of this change has been positive. Falling inflation expectations have led to major declines in interest rates. There has been a significant drop in the cost of imported oil. On the financial side, there is a shift toward greater scrutiny of foreign lending which may be positive for the longer run, even though there are short-term strains. Lenders are re-evaluating loan portfolios established under quite different expectations about future inflation. Levels of debt that were once expected to decline in real terms because of continued inflation -- and therefore to remain easy for borrowers to manage out of growing export revenues -- are now seen to be high in real terms and not so manageable in a disinflationary world. As a result, banks have become more cautious in their lending -- not just to LDCs but to domestic borrowers as well.

There is certainly nothing wrong with greater exercise of prudence and caution on the part of commercial banks -- far from it. Since banks have to live with the consequences of their decisions, sound lending judgment is crucial. In addition, greater scrutiny by lenders puts pressure on borrowers to improve their capacity to repay, and creates an additional incentive for borrowing countries to undertake needed adjustment measures.

But a serious short-run problem has arisen as a result of the size of the debt of several key countries, the turn in the world economic environment, inadequacy of adjustment policies, and the speed with which countries' access to external financing has been cut back. Last year, net new bank lending to non-OPEC LDCs dropped by roughly half, to something in the range of $20 to $25 billion for the year as a whole (Chart B), and came to a virtual standstill for a time at mid-year. This forced LDCs to try to cut back their trade and current account deficits sharply to match the reduced amount of available external financing.

The only fast way for these countries to reduce their deficits significantly in the face of an abrupt cutback in financing is to cut imports drastically, either by sharply depressing their economies to reduce demand or by restricting imports directly Both of these are damaging to the borrowing countries, politically and socially disruptive, and painful to industrial economies like the United States -- because almost all of the reduction in LDC imports must come at the direct expense of exports from industrial countries.

As the situation developed, there has been a danger that lenders might move so far in the direction of caution that they compound the severe adjustment and liquidity problems already faced by major borrowers, and even push other countries which are now in reasonably decent shape into serious financing problems as well.

The question is one of the speed and degree of adjustment. While the developing countries must adjust their economies to reduce the pace of external borrowing and maintain their capacity to service debt, there _is_ a limit, in both economic and political terms, to the speed with which major adjustments can be made. Effective and orderly adjustment takes time, and attempts to push it too rapidly can be destabilizing.

Importance to the United States of an Orderly Resolution

It is right for American citizens to ask why they and their government need be concerned about the international debt problem. Why should we worry if some foreign borrowers get cut off from bank loans? And why should we worry if banks lose money? Nobody forced them to lend, and they should live with the consequences of their own decisions like any other business.

If all the U.S. government had in mind was throwing money at the borrowers and their lenders, it would be difficult to justify using U.S. funds on any efforts to resolve the debt crisis, especially at a time of domestic spending adjustment.

But of course, there _is_ more to the problem, and to the solution. First, a further abrupt and large-scale contraction of LDC imports would do major damage to the U.S. economy. Second, if the situation were handled badly, the difficulties facing LDC borrowers might come to appear so hopeless that they would be tempted to take desperate steps to try to escape. The present situation is manageable. But a downward spiral of world trade and billions of dollars in simultaneous loan losses would pose a fundamental threat to the international economic system, and to the American economy as well.

In order to appreciate fully the potential impact on the U.S. economy of rapid cutbacks in LDC imports, it is useful to look at how important international trade has become to us. Trade was the fastest growing part of the world economy in the last decade -- but the volume of U.S. exports grew even faster in the last part of the 1970's, more than twice as fast as the volume of total world exports. By 1980, nearly 20 percent of total U.S. production of goods was being exported, up from 9 percent in 1970, although the proportion has fallen slightly since then. (Charts C and D.)

Among the most dynamic export sectors for this country are agriculture, services, high technology, crude materials and fuels. American agriculture is heavily export-oriented: one in three acres of U.S. agricultural land, and 40 percent of agricultural production, go to exports. This is one sector in which we run a

consistent trade surplus, a surplus that grew from $1.6 billion in 1970 to over $24 billion in 1980. (Chart E.)

Services trade -- for example, shipping, tourism, earnings on foreign direct investment and lending -- is another big U.S. growth area. The U.S. surplus on services trade grew from $3 billion in 1970 to $34 billion in 1980, and has widened further since. (Chart F.) When both goods and services are combined, it is estimated that one-third of U.S. corporate profits derive from international activities.

High technology manufactured goods are a leading edge of the American economy, and not surprisingly net exports of these goods have grown in importance. The surplus in trade in these products rose from $7.6 billion in 1970 to $30 billion in 1980. And even in a sector we do not always think of as dynamic -- crude materials and non-petroleum fuels like coal -- net exports rose six-fold, from $2.4 billion to $14.6 billion over the same period.

Vigorous expansion of our export sectors has become critical to employment in the United States. (Chart G.) The absolute importance of exports is large enough -- they accounted directly for 5 million jobs in 1982, including one out of every eight jobs in manufacturing industry. But export-related jobs have been getting even more important at the margin. A survey in the late 1970s indicated that four out of every five new jobs in U.S. manufacturing was coming from foreign trade; on average, it is estimated that every $1 billion increase in our exports results in 24,000 new jobs. Later I will detail how Mexico's debt problems have caused a $10 billion annual-rate drop in our exports to Mexico between the end of 1981 and the end of 1982. By the rule of thumb I just mentioned, that alone -- if sustained -- would mean the loss of a quarter of a million American jobs.

These figures serve to illustrate the overall importance of exports to the U.S. economy. The story can be taken one step further, to relate it more closely to the present financial situation. Our trading relations with the non-OPEC LDCs have expanded even more rapidly than our overall trade. Our exports to the LDCs, which accounted for about 25 percent of total U.S. exports in 1970, rose to about 29 percent by 1980. (Chart H.)

What these figures mean is that the export sector of our economy -- a leader in creating new jobs -- is tremendously vulnerable to any sharp cutbacks in imports by the non-OPEC LDCs. Yet that is exactly the response to which debt and liquidity problems have been driving them. This is a matter of concern not just to the banking system, but to American workers, farmers, manufacturers and investors as well.

Even on the banking side there are indirect impacts of concern to all Americans. A squeeze on earnings and capital positions from losses on foreign loans not only would impair banks' ability to finance world trade, but also could ultimately mushroom into a significant reduction in their ability to lend to domestic customers and an increase in the cost of that lending.

Beyond our obvious interest in maintaining world trade and trade finance, there is another less-recognized U.S. financial interest. The U.S. government faces a potential exposure through Federal lending programs administered by Eximbank and the Commodity Credit Corporation. This exposure -- built in support of U.S. export expansion -- amounted to $35 billion at the end of 1982, including $24 billion of direct credits (mostly from Eximbank) and $11 billion of guarantees and insurance. Argentina, Brazil and Mexico are high on the list of borrowers. Should loans extended or guaranteed under these programs sour, the U.S. Treasury -- meaning the U.S. taxpayer -- would be left with the loss.

All industrial economies, including the American economy, will inevitably bear some of the costs of the balance of payments adjustments LDCs must make and are already making. This adjustment would be much deeper, for both the borrowing countries and for lending countries like the United States, if banks were to pull back entirely from new lending this year. In 1983, for example, a flat standstill would require borrowers to make yet another $20 to $25 billion cut in their trade and current account deficits, which would be considerably harder to manage if it came right on the heels of similar cuts they have already made. Further adjustments are needed -- but again the question is one of the size and speed of adjustment. If these countries were somehow to make adjustments of that size for a second consecutive year, the United States and other industrial countries would then have to suffer large export losses once again. At the early stages of U.S. and world economic recovery we are likely to be in this year, a drop in export production of this size could abort the gradual rebuilding of consumer and investor confidence we need for a sustained recovery.

In fact, many borrowers have already taken very difficult adjustment measures to get this far. If they were forced to contemplate a second year of further massive cutbacks in available financing, they could be driven to consider other measures to reduce the burden of their debts. Here potentially lies a still greater threat to the financial system.

When interest payments are more than 90 days late, not only are bank profits reduced by the lost interest income, but they may also have to begin setting aside precautionary reserves to cover potential loan losses. If the situation persisted long enough, the capital of some banks might be reduced.

Banks are required to maintain an adequate ratio between their underlying capital and their assets -- which consist mainly of loans. For some, shrinkage of their capital base would force them to cut back on their assets -- meaning their outstanding loans -- or at least on the growth of their assets -- meaning their new lending. Banks would thus be forced to make fewer loans to all borrowers, domestic and foreign, and they would also be unable to make as many investments in securities such as municipal bonds. Reduced access to bank financing would thus force a cutback in the expenditures which private corporations

and local governments can make -- and it would also put upward pressure on interest rates.

The usual perception of international lending is that it involves only a few large banks in the big cities, concentrated in half a dozen states. The facts are quite different. We have reliable information from bank regulatory agencies and Treasury reports identifying nearly 400 banks in 35 states and Puerto Rico that have foreign lending exposures of over $10 million -- and in all likelihood there are hundreds more banks with exposures below that threshold but still big enough to make a significant dent in their capital and their ability to make new loans here at home. Banks in most states are involved, and the more abruptly new lending to troubled borrowing countries is cut back, the more likely it is that the fallout from their problems will feed back back on the U.S. financial system and weaken our economy.

Resolving the International Financial Problem

Debt and liquidity problems did not come into being overnight, and a lasting solution will also take some time to put into place. We have been working on a broad-based strategy involving all the key players -- LDC governments, governments in the industrialized countries, commercial banks, and the International Monetary Fund. This strategy, which was first outlined in my testimony before the full Banking Committee last December, has five main parts:

First, and in the long run most important, must be effective adjustment in borrowing countries. In other words, they must take steps to get their economies back on a stable course, and to make sure that imports do not grow faster than their ability to pay for them. Each of these countries is in a different situation, and each faces its own unique constraints. But in general, orderly and effective adjustment will not come overnight. The adjustment will have to come more slowly, and must involve expansion of productive investment and exports. In many cases it will entail multi-year efforts, usually involving measures to address some combination of the following problems: rigid exchange rates; subsidies and protectionism; distorted prices; inefficient state enterprises; uncontrolled government expenditures and large fiscal deficits; excessive and inflationary money growth; and interest rate controls which discourage private savings and distort investment patterns. The need for such corrective policies is recognized, and being acted on, by major borrowers -- with the support and assistance of the IMF.

The second element in our overall strategy is the continued availability of official balance of payments financing, on a scale sufficient to help see troubled borrowers through the adjustment period. The key institution for this purpose is the International Monetary Fund. The IMF not only provides temporary balance of payments financing, but also ensures that use of its funds is tied tightly to implementation of needed policy measures by borrowers. It is this aspect -- IMF conditionality -- that makes the role of the IMF in resolving the current debt situation and the adequacy of its resources so important.

IMF resources are derived mainly from members' quota subscriptions, supplemented at times by borrowing from official sources. Assessing the adequacy of these resources over any extended period is extremely difficult and subject to wide margins of error. The potential needs for temporary balance of payments financing depend on a number of variables, including members' current and prospective balance of payments positions, the availability of other sources of financing, the strength of the conditionality associated with the use of IMF resources, and members' willingness and ability to implement the conditions of IMF programs. At the same time, the amount of IMF resources that is effectively available to meet its members' needs at any point in time depends not only on the size of quotas and borrowing arrangements, but also on the currency composition of those resources in relation to balance of payments patterns, and on the amount of members' liquid claims on the IMF which might be drawn. In view of all these variables, assessments of the IMF's "liquidity" -- its ability to meet members' requests for drawings -- can change very quickly.

Still, as difficult as it is to judge the adequacy of IMF resources in precise terms, most factors point in the same direction at present. The resources now effectively available to the IMF have fallen to very low levels in absolute terms, in relation to broad economic aggregates such as world trade, and in relation to actual and potential use of the IMF.

At present, the IMF has about SDR 28 billion available for lending. However, SDR 16 billion of that total has already been committed under existing IMF programs, leaving only about SDR 12 billion available for new commitments. Given the scope of today's financing problems, requests for IMF programs by many more countries must be anticipated over the next year, and it is probable that unless action is taken to increase IMF resources its ability to commit funds to future adjustment programs will be exhausted by late 1983 or early 1984. I will return to our specific proposals in this area shortly.

The IMF cannot be our only buffer in financial emergencies. It takes time for borrowers to design and negotiate lending programs with the IMF and to develop financing arrangements with other creditors. As we have seen in recent cases, the problems of troubled borrowers can sometimes crystallize too quickly for that process to reach its conclusion -- in fact, the real liquidity crunch came in the Mexican and Brazilian cases before such negotiations even started.

Thus, the third element in our strategy is the willingness of governments and central banks in lending countries to act quickly if necessary to respond to debt emergencies. Recent experience has demonstrated the need to be willing to consider providing immediate and substantial short-term financing -- but only on a selective basis, where system-wide dangers are present -- to tide countries through their negotiations with the IMF and discussions with other creditors. We are undertaking this where necessary, on a case-by-case basis, through *ad hoc* arrangements among finance ministries and central banks, often in cooperation

with the Bank for International Settlements. But it must be emphasized that these lending packages are short-term in nature, designed to last for only a year at most and normally much less, and cannot substitute for IMF resources which are designed to help countries through a multi-year adjustment process.

In fact, IMF resources themselves have only a transitional and supporting role. The overall amount of Fund resources, while substantial, is limited and not in any event adequate to finance all the needs of its members. While we feel that a sizeable increase in IMF resources is essential, this increase is not a substitute for lending by commercial banks. Private banks have been the largest single source of international financing in the past to both industrial and developing countries, and this will have to be the case in the future as well -- including during the crucial period of adjustment.

Thus, the fourth essential element in resolving debt problems is continued commercial bank lending to countries that are pursuing sound adjustment programs. In the last months of 1982 some banks, both in United States and abroad, sought to limit or reduce outstanding loans to troubled borrowers. But an orderly resolution of the present situation requires not only a willingness by banks to "roll over" or restructure existing debts, but also to increase their net lending to developing countries, including the most troubled borrowers, to support effective, non-disruptive adjustment.

The increase in net new commercial bank lending that has been arranged for just three countries -- Brazil, Argentina, and Mexico -- amounts to nearly $11 billion. For Brazil, the banks have agreed to provide new net lending of $4.4 billion, which would raise total commercial bank claims on Brazil to an estimated total of $65 billion. For Argentina, net new lending of $1.5 billion would raise claims to around $25 billion. For Mexico, net new lending of $5 billion will raise bank claims to something over $65 billion. Without such continued lending in support of orderly and constructive economic adjustment, the programs that have been formulated with the IMF could not succeed -- and the lenders have a strong self-interest in helping to assure success. It should be noted, however, that new bank lending will be at a slower rate than that which has characterized the last few years -- more in line with the increase in 1982 than what we saw in 1980 or 1981.

The final part of our strategy is to restore sustainable economic growth and to preserve and strengthen the free trading system. The world economy is poised for a sustained recovery: inflation rates in most major countries have receded; nominal interest rates have fallen sharply; inventory rundowns are largely complete.

Solid, observable U.S. recovery is one critical ingredient for world economic expansion. We believe the U.S. recovery is now underway, as evidenced by the recent drop in unemployment and the estimated 4 percent increase in U.S. GNP during the first quarter of this year. Establishing credible growth in other industrial economies is also important, and we believe the base for recovery has been laid abroad as well.

However, both we and others must exercise caution at this turning point. Governments must not give in to political pressures to stimulate their economies too quickly through excessive monetary or fiscal expansion. A major shift at this stage could place renewed upward pressure on inflation and interest rates.

In addition, rising protectionist pressures, both in the United States and elsewhere, pose a real threat to global recovery and to the resolution of the debt problem. When one country takes protectionist measures hoping to capture more than its fair share of world trade, other countries will retaliate. The result is that world trade shrinks, and rather than any one country gaining additional jobs, everybody loses. More importantly for current debt problems, we must remember that export expansion by countries facing problems is crucial to their balance of payments adjustment efforts. Protectionism cuts off the major channel of such expansion. That adjustment is essential to restoring problem country debtors to sustainable balance of payments positions and avoiding further liquidity crises -- and as we have seen, it is therefore essential to the economic and financial health of the United States.

The only solution is a stronger effort to resist protectionism. As the world's largest trading nation, the United States carries a major responsibility to lead the world away from a possible trade war. The clearest and strongest signal for other countries would be for the United States to renounce protectionist pressures at home and to preserve its essentially free trade policies. That signal would be followed, and would reinforce, continued U.S. efforts to encourage others to open their markets, and would in turn be reinforced by IMF program requirements for less restrictive trade policies by borrowers.

The Role and Resources of the IMF

I have stressed the role of the International Monetary Fund in dealing with the current financial situation, and now I would like to expand on that point. The IMF is the central official international monetary institution, established to promote a cooperative and stable monetary framework for the world economy. As such, it performs many functions beyond the one we are most concerned with today -- that of providing temporary balance of payments financing in support of adjustment. These include monitoring the appropriateness of its members' foreign exchange arrangements and policies, examining their economic policies, reviewing the adequacy of international liquidity, and providing mechanisms through which its member governments cooperate to improve the functioning of the international monetary system.

In that context, it becomes clearer that IMF financing is provided only as part of its ongoing systemic responsibilities. Its loans to members are made on a temporary basis in order to safeguard the functioning of the world financial system -- in order to provide borrowers with an extra margin of time and money which they can use to bring their external positions back into reasonable balance in an orderly manner, without being forced into abrupt and more restrictive measures to limit imports. The conditionality attached to IMF lending is designed to assure that orderly adjustment takes place, that the borrower is restored to a position

which will enable it to repay the IMF over the medium term. In addition, a borrower's agreement with the IMF on an economic program is usually viewed by financial market participants as an international "seal of approval" of the borrower's policies, and serves as a catalyst for additional private and official financing.

The money which the IMF has available to meet its members' temporary balance of payments financing needs comes from two sources: quota subscriptions and IMF borrowing from its members. The first source, quotas, represents the Fund's main resource base and presently totals some SDR 61 billion, or about $67 billion at current exchange rates. The IMF periodically reviews the adequacy of quotas in relation to the growth of international transactions, the size of likely payments imbalances and financing needs, and world economic prospects generally.

At the outset of the current quota discussions in 1981, many IMF member countries favored a doubling or tripling of quotas, arguing both that large payments imbalances were likely to continue and that the IMF should play a larger intermediary role in financing them. While agreeing that quotas should be adequate to meet prospective needs for temporary financing, the United States felt that effective stabilization and adjustment measures should lead to a moderation of payments imbalances, and that a massive quota increase was not warranted. Nor did we feel that an extremely large quota increase would be the most efficient way to equip the IMF to deal with unpredictable and potentially major financing problems that could threaten the stability of the system as a whole, and for which the IMF's regular resources were inadequate.

Accordingly, the United States proposed a dual approach to strengthening IMF resources:

-- First, a quota increase which, while smaller than many others had wanted, could be expected to position the IMF to meet members' needs for temporary financing in normal circumstances.

-- Second, establishment of a contingency borrowing arrangement that would be available to the IMF on a stand-by basis for use in situations threatening the stability of the system as a whole.

This approach has been adopted by the IMF membership, in agreements reached by the major countries in the Group of Ten in mid-January, and by all members at the IMF's Interim Committee meeting early last month.

The agreed increase in IMF quotas is 47 percent, an increase from SDR 61 billion to SDR 90 billion (in current dollar terms, an increase from $67 billion to $99 billion). The proposed increase in the U.S. quota is SDR 5.3 billion ($5.8 billion at current exchange rates) representing 18 percent of the total increase.

The Group of Ten, working with the IMF's Executive Board, has agreed to an expansion of the IMF's General Arrangements to Borrow from the equivalent of about SDR 6.5 billion at present to a new total of SDR 17 billion, and to changes in the GAB to permit its use, under certain circumstances, to finance drawings on the IMF by any member country. Under this agreement, the U.S. commitment to the GAB would rise from $2 billion to SDR 4.25 billion, equivalent to an increase of roughly $2.7 billion at current exchange rates.

We believe this expansion and revision of the GAB offers several important attractions and, as a supplement to the IMF's quotas, greatly strengthens the IMF's role as a backstop to the system:

-- First, since GAB credit lines are primarily with countries that have relatively strong reserve and balance of payments positions, they can be expected to provide more effectively usable resources than a quota increase of comparable size. Consequently, expansion of the GAB is a more effective and efficient means of strengthening the IMF's ability to deal with extraordinary financial difficulties than a comparable increase in quotas.

-- Second, since the GAB will not be drawn upon in normal circumstances, this source of financing will be conserved for emergency situations. By demonstrating that the IMF is positioned to deal with severe systemic threats, an expanded GAB can provide the confidence to private markets that is needed to ensure that capital continues to flow, thus reducing the risk that the problems of one country will affect others.

-- And third, creditors under this arrangement will have to concur in decisions on its activation, ensuring that it will be used only in cases of systemic need and in support of effective adjustment efforts by borrowing countries.

Annex A to my statement contains the texts of the relevant IMF report and decisions on the quota increase and GAB revisions. In sum, the proposed increase in U.S. commitments to the IMF totals SDR 7.7 billion -- SDR 5.3 billion for the increase in the U.S. quota and SDR 2.4 billion for the increase in the U.S. commitment under the GAB. At current exchange rates, the dollar equivalents are $8.5 billion in total, $5.8 billion for the quota increase and $2.7 billion for the GAB increase.

We believe these steps to strengthen the IMF, if enacted, will safeguard the IMF's ability to respond effectively to current financial problems. Given the financing needs that are foreseen, IMF members have agreed that it is important that the increases be implemented by the end of this year. Without such a timely and adequate increase in IMF resources, the ability of the monetary system to weather debt and liquidity problems will be impaired, at substantial direct and indirect cost to the United States.

Concerns about the Increase in IMF Resources

The general outline of our proposals has been known to members of Congress for some time. Many have expressed reservations or questions about this proposal, and I would like to discuss some of the main concerns now.

° Is the IMF "Foreign Aid"?

Many perceive money appropriated for IMF use to be just another form of foreign aid, and question why we should be providing U.S. funds to foreign governments. Let me assure you that the IMF is not a development institution. It does not finance dams, agricultural cooperatives, or infrastructure projects. The IMF is a monetary institution. Only one of its functions is providing balance of payments financing to its members in order to promote orderly functioning of the monetary system, and only then on a temporary basis, on medium-term maturities, after obtaining agreement to the fulfillment of policy conditions. Financing is not provided in one lump sum to borrowing countries, but is made available in parts only as they implement agreed policies. We have been working very hard with the IMF to ensure that both the effectiveness of IMF policy conditions, and the temporary nature of its financing, are safeguarded. In this way, the Fund's financing facilities will continue to have a revolving nature and to promote adjustment.

IMF conditionality has been controversial over the years, with strong opinions on both sides. Some observers have worried that conditionality is so weak and ineffective that conditional lending is virtually a giveaway. Others believe that conditionality is too tight -- that it imposes unnecessary hardship on borrowers, and stifles economic growth and development.

Such generalizations reflect a misunderstanding of IMF conditionality. When providing temporary resources to a country faced with external financing problems, the IMF seeks to assure itself that the country is pursuing policies that will enable it to live within its means -- that is, within its ability to obtain foreign financial resources. It is this that determines the degree of adjustment that is necessary. It is often the case that appropriate economic policies will strengthen a country's borrowing capacity, and result in both higher import growth and higher export growth. I would cite the example of Mexico as an immediate case in point.

Mexico is our third largest trading partner, after Canada and Japan. And, as recently as 1981, it was a partner with whom we had an export boom and a substantial trade surplus, exporting goods to meet the demands of its rapidly growing population and developing economy. This situation changed dramatically in 1982, as Mexico began experiencing severe debt and liquidity problems. By late 1982, Mexico no longer had access to financing sufficient to maintain either its imports or its domestic economic activity. As a result, U.S. exports to Mexico dropped by a staggering 60 percent between the fourth quarter of 1981 and the fourth quarter of 1982. Were our exports to Mexico to stay at their depressed end-1982 levels, this would represent a $10 billion drop in exports to our third largest market in the world. Because the financing crunch got worse as the year wore on, totals

for the full year 1982 don't tell the story quite so dramatically -- but even they are bad enough. Our $4 billion trade surplus with Mexico in 1981 was transformed into a trade deficit of nearly $4 billion in 1982, due mainly to an annual-average drop in U.S. exports of one-third. (Chart I.) This $8 billion deterioration was our worst swing in trade performance with any country in the world, and it was due almost entirely to the financing problem.

We believe that now this situation will start to turn around, and we can begin to resume more normal exports to Mexico. If this happens, it will be due in large part to the fact that, late in December, an IMF program for Mexico went into effect; and that program is providing the basis not only for IMF financing, but for other official financing and for a resumption of commercial bank lending as well. Mexico must make difficult policy adjustments if it is to restore creditworthiness. The Mexican authorities realize this and are embarked on a courageous program. But the existence of IMF financing and the other financing associated with it will permit Mexico to resume something more like a normal level of economic activity and imports while the adjustment takes place in an orderly manner. Without the IMF program, all we could look forward to would be ever-deepening depression in Mexico and still further declines in our exports to that country.

There is another aspect of the distinction between IMF financing and foreign aid which we should be very clear on, since it goes to the heart of U.S. relations with the Fund. All IMF members provide financing to the IMF under their quota subscriptions, and all -- industrial and developing alike -- have the right to draw on the IMF. Quota subscriptions form a kind of revolving fund, to which all members contribute and from which all are potential borrowers.

As an illustration, in practice our quota subscription has been drawn upon many times -- and repaid -- over the years for lending to other IMF members. We in turn have drawn on the IMF on 24 occasions -- most recently in November 1978 -- and our total cumulative drawings, amounting to the equivalent of $6.5 billion, are the second largest of any member (the United Kingdom has been the largest user of IMF funds). (U.S. drawings on the IMF are described at Annex B.)

° <u>Do IMF Programs Promote Protectionism and Hurt U.S. Exports?</u>

There is a perception that IMF programs are designed to cut imports and growth in borrowing countries, and that the IMF encourages protectionist measures as a means to reduce imports. More generally, it is argued by some that, far from helping to maintain world trade and U.S. exports, IMF programs actually hurt exports by the United States and other industrial countries by reducing overall import demand in borrowing countries.

Both of these arguments are just plain wrong. The purpose of an IMF program <u>is</u> to restore a borrower's external position to a sustainable basis -- but that doesn't take place solely, or in the long run even primarily, by restraining imports. In

fact, it is frequently the case that a country's imports under an IMF program are higher than in the period before that program went into effect -- and generally far higher than would have been possible in the absence of the program.

The logic of this process should be clear. By the time many countries approach the Fund, they have permitted economic and financial conditions to deteriorate to such an extent that their access to normal sources of credit is severely restricted, if not cut off altogether. Without the policy reforms instituted under an IMF program, the temporary financing the IMF makes available, and the additional private and official financing its program catalyzes, imports and economic activity would be curtailed sharply adjustment would be abrupt and disorderly. We saw this happen in Mexico last year, before its IMF program was put in place.

In contrast, with an IMF program a borrowing country receives additional financing which enables it to maintain higher levels of growth and imports, even when it is putting strong adjustment measures in place. In the longer run as well, a successful program makes a higher level of imports and a higher economic growth rate possible. For as I have said earlier, orderly adjustment entails not just the cooling of overheated demand, but also a wide range of measures to increase a borrowing country's economic efficiency and productive capacity, and hence its ability to grow and to pay for imports.

In fact, this conclusion is borne out vividly by the performance envisioned under 26 new IMF conditional adjustment programs -- 23 recently approved, and three proposed. In the great majority of these, real economic growth is expected to improve in the first year of the program as compared with the preceding two years; growth is expected to decline in the first year in only 7 of the 26. The same is true for imports under these Fund programs: imports are expected to be higher in the first program year than in the two preceding years in 19 out of 26 cases.

The programs for Mexico, Argentina, and Brazil all fit this category. In Mexico the real economic growth rate fell from 8.1 percent in 1981 to zero in 1982; and imports fell from $23 billion in 1981 to less than $15 billion in 1982. Since the vast majority of Mexico's imports come from the United States, Mexico's ability to import in the future matters quite a lot to us. In the first year of the new IMF program, Mexico's imports are projected to rise by 2 percent, and by another 14 percent next year.

In Argentina real GNP declined for two years preceeding the IMF program, and imports dropped from $9.4 billion in 1981 to $5.5 billion in 1982. Under the IMF program, Argentina's imports are projected to rise by 18 percent over two years and real growth is expected to resume. In Brazil, real GDP fell 3.5 percent in 1981 and stagnated in 1982, while imports dropped from $22 billion in 1981 to $19.4 billion in 1982. Brazil's imports are expected to decline significantly further this year, but to grow over the

course of their three-year IMF program as a whole; indeed, excluding oil, Brazil's imports in the third program year are projected to be some 35 percent higher than last year. Clearly, not all IMF programs can lead to increased imports in the short run, especially where imports were unsustainably high beforehand. But IMF programs do permit a higher short-run import level than would be possible without a program, and are always designed to lead to longer-term increases.

The suggestion that the IMF encourages trade protectionism as a means of balance of payments adjustment does not stand up under scrutiny either. The entire history and philosophy of the organization run in the opposite direction -- toward a free and open trading system -- as do its practices. It aims at liberalizing trade policies as far as possible in order to minimize economic distortions and stimulate competition. For this purpose, the performance criteria in IMF programs always include an injunction against the imposition or intensification of import or payments restrictions for balance of payments reasons. If actions are taken which violate these prohibitions, the borrower is prevented from using additional IMF credit until the issue can be resolved satisfactorily to the Fund.

In fact, these performance criteria designed to avoid increased protectionism are only half the story. The other half is that the IMF also actively seeks the reduction and elimination of existing import restrictions and export subsidies by providing for the adoption of more efficient, market-oriented measures during program periods. Among the 38 Fund programs approved between January 1, 1982, and February 28, 1983, 30 included some positive reform or liberalization of a country's exchange or trade system.

° Why Not Spend the Money at Home?

Another major concern with the proposals to increase IMF resources is that, in this period of budgetary stringency, many believe we would be better advised to spend the money at home. There is also some feeling that if we were to get the U.S. economy moving forward again, the international financial problem would take care of itself. I think I've already been through part of the response to these concerns when I described the large and growing impact which foreign trade now has on American growth and employment. We will do what is necessary domestically to strengthen our economy. But we will leave a major threat to domestic recovery unaddressed if we do not act to resolve the international financial situation. The direct impact alone of international developments on our economy is so large that, were the international situation not to improve, there would at a minimum be a tremendous drag on our economic recovery.

It is true that an improving U.S. economy is going to help other nations, both through our lower interest rates and through an expanding U.S. market for their exports -- providing of course that we don't cut them off from that market. But they also have an immediate, short-run financing crunch to get through, and if we don't handle that right there are substantial downside risks for the United States.

• Budgetary Treatment

This might also be the right context in which to discuss how U.S. participation in the increase in IMF resources would affect the Federal budget and the Treasury's borrowing requirements. Under budget and accounting procedures adopted in connection with the last IMF quota increase, in consultation with the Congress, both the increase in the U.S. quota and the increase in U.S. commitments under the GAB will require Congressional authorization and appropriation. However, because the United States receives a liquid, interest-earning reserve claim on the IMF in connection with our actual transfers of cash to the IMF, such transfers do not result in net budget outlays or an increase in the Federal budget deficit.

Actual cash transactions with the IMF, under our quota subscription or U.S. credit lines, do affect Treasury borrowing requirements as they occur. The amount of such transactions in any given year depends on a variety of factors, including the rate at which IMF resources are used; the degree to which the dollar in particular is involved in both current IMF drawings and repayments of past drawings; and whether the United States itself draws on the IMF.

An analysis appended to this statement at Annex C presents data on the impact of U.S. transactions between U.S. fiscal year 1970 and the first quarter of fiscal 1983 on Treasury borrowing requirements. Although there have been both increases and decreases in Treasury borrowing requirements from year to year, on average there have been increases amounting to about $1/2 billion annually over the entire period, for a cumulative total of about $7 billion. The rate has picked up in the last two years of heavy IMF activity, as would be expected; but the total is still relatively small -- the $1/2 billion annual impact is only a small part of the $61 billion annual average increase in Treasury borrowing over the same period, and the roughly $7 billion cumulative impact compares with an outstanding Federal debt of $1.1 trillion at the end of fiscal 1982. These figures also serve to demonstrate the revolving nature of the IMF.

• Is the IMF a Bank "Bail-Out"?

I also know there is a widespread concern that an increase in IMF resources will amount to a bank bail-out at the expense of the American taxpayer. Many would contend that the whole debt and liquidity problem is the fault of the banks -- that they've dug themselves and the rest of us into this hole though greed and incompetence, and now we intend to have the IMF take the consequences off their hands. This line of argument is dangerously misleading, and I would like to set the record straight.

First, the steps that are being taken to deal with the financial problem, including the increase in IMF resources, require continued involvement by the banks. Far from allowing them to cut and run, orderly adjustment requires increased bank lending to troubled LDCs that are prepared to adopt serious economic programs. That is exactly what is happening.

And it is not a departure from past experience. I have had Treasury staff review IMF program experience in the 20 countries which received the largest net IMF disbursements in the last few years, to see whether banks had been "bailed out" in the past. Looking at the period from 1977 to mid-1982, they found that for the countries which rely most heavily on private bank financing, IMF programs have been followed up by new bank lending much greater than the amount disbursed by the Fund itself. This also holds true for the 20 countries as a group: net IMF disbursements to this group during the period were $11.5 billion, while net bank lending totalled $49.7 billion, resulting in a ratio of 4.3 to 1 during this period.

It is clear that IMF resources are not being used to enable banks to pull out of lending to troubled countries. But a question is frequently raised about how IMF financing is used. The correct, if rather broad, answer is that it is used for general balance of payments support.

One must remember that many of the countries now undertaking IMF programs have previously reached a stage where financing was no longer available to them to allow them to conduct normal international transactions. IMF financing is provided to member governments to enable them to resume such transactions while adjustment is taking place. There are a wide variety of specific international transactions which governments themselves engage in, including merchandise imports, purchases of services from abroad, and various capital transactions. Some, but only a part, of these transactions are related to interest on, and repayments of, past borrowing from commercial banks. In addition, in most developing countries the foreign exchange market is so small and rudimentary that it is managed by the government or central bank. As a result, demands for foreign exchange resources of the type provided by IMF financing must also be met by LDC governments in facilitating a large variety pf transactions related to imports, purchases of services, and capital transactions by private citizens -- a function which in the United States is performed by private foreign exchange markets. Because money is fungible it is neither possible nor meaningful to ascribe the financing provided by the IMF to any particular subset of a borrowing country's balance of payments transactions.

Another point I would like to make is that the whole debt and liquidity problem cannot fairly be said to be the fault of the commercial banks. In fact, the banking system as a whole performed admirably over the last decade, in a period when there were widespread fears that the international monetary system would fall apart for lack of financing in the aftermath of the oil shocks. The banks managed almost the entire job of "recycling" the OPEC surplus and getting oil importers through that difficult period. Some of the innovations and decisions that banks made in the process, which seemed rational and necessary at the time to them and to others, may seem doubtful in retrospect, given the way the world economic environment changed. But I think we can agree that governments have had a great deal more to do with shaping that environment than banks.

All of this is not to say that there aren't lessons to be learned in the banking area. We should be asking ourselves: What is there that banks could be doing to improve their screening of foreign loans? What is there that bank regulators could do to improve on their analysis of country risk, examination of bank exposure, and consultations with senior management?

Our basic starting point in addressing these questions is a belief that the U.S. government should not get into the business of dictating the lending practices of private banks. Doing so would inject a political element into what should be business decisions, and would potentially expose the government to liability for covering loans that were not repaid on time. Moreover, in general it is bank managements, which have direct experience and a responsibility to their shareholders and depositors to motivate them, that are in the best position to make lending decisions.

In 1979, the bank regulatory agencies (the Federal Reserve, Comptroller of the Currency and the FDIC) instituted a new system for evaluating country risk, which has four elements. The first is a statistical reporting system designed to identify country exposures at each bank, and to enable regulators to monitor those exposures. Second is an evaluation of each bank's internal system for managing country risk, aimed at encouraging more systematic review of prospective loans. Third, where there is a judgment by regulators that a country has interrupted its debt service payments, or is about to do so, all loans to that country may be "classified" as substandard, doubtful, or a total loss, and such "classification" may trigger an obligation by the bank to set aside precautionary loan loss reserves. Fourth, bank examiners review and comment upon each bank's large foreign lending exposures, drawing upon the findings of an interagency committee of country analysts.

There are several possible changes that could be made in the regulatory environment. One would be to set up formal limits on each bank's exposure in different countries by law or regulation, in effect setting up "single country" limits analogous to the country exposure could be highly arbitrary and unable to distinguish among the capabilities of different countries -- particularly if dictated specifically, once and for all, in legislation. If limits were applied judgmentally, on the other hand, they could require that the U.S. government make controversial economic and political judgments about other countries.

Another possibility, which has been discussed with banks here and abroad, would be to require banks to meet specific criteria in establishing precautionary loan loss reserves against troubled loans, or against particularly large ones. Current procedures are not uniform across banks, and since setting aside such reserves reduces current earnings, there is some reluctance to do so unless absolutely required.

Both in the banking regulatory agencies, and at the Treasury, we will be reviewing these and other issues to see what changes might be desirable. We need to be careful in determining how to

deal with such a sensitive and central part of our economy. Any decisions in this area will have important implications both for resolving the present situation, and for the evolution of the banking system in the future.

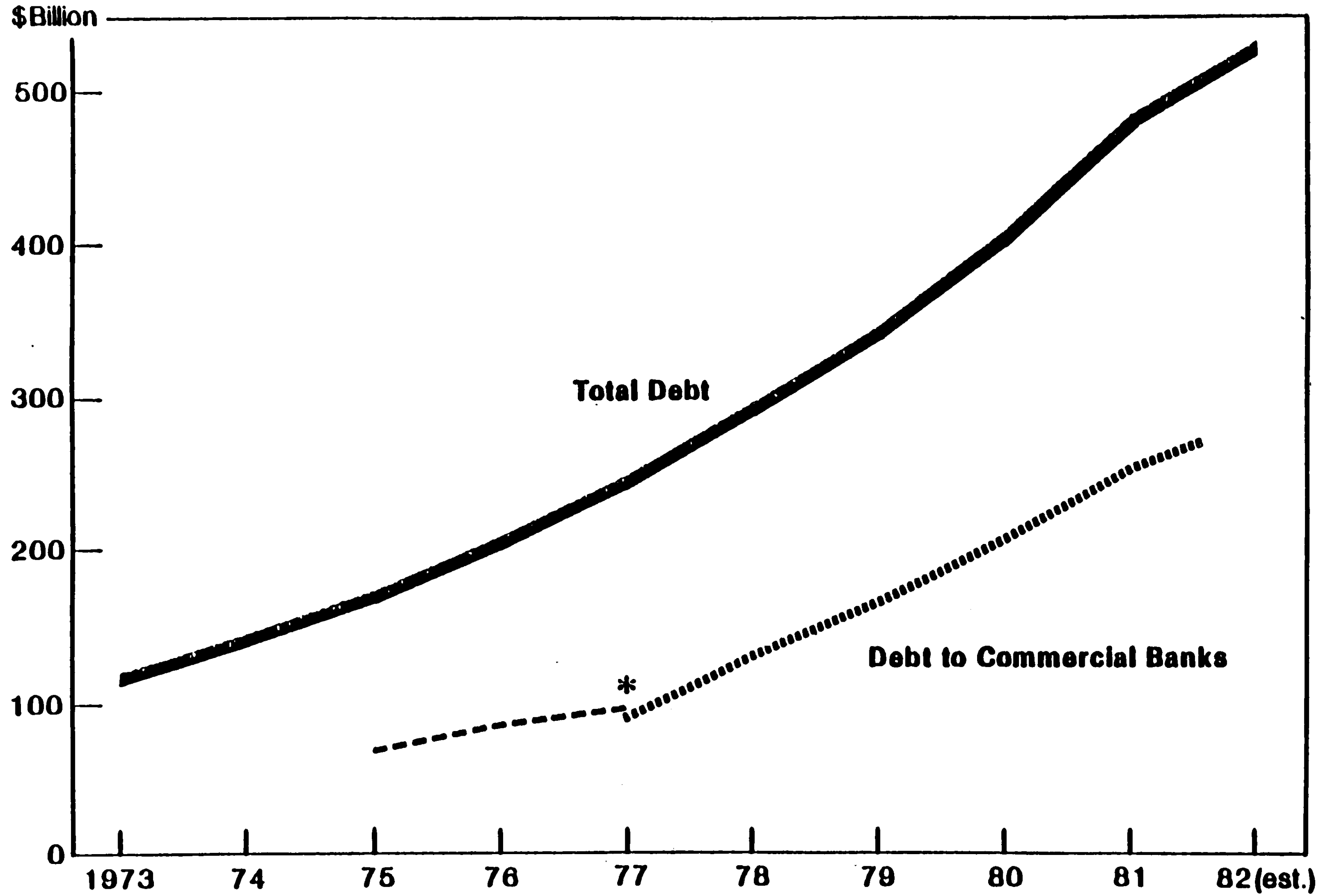
Conclusion

The IMF plays a crucial role in the solution to current debt and liquidity problems, and in providing the environment for world recovery. It is absolutely essential that the proposed increase in IMF resources become effective by the end of this year, to enable the IMF to meet these responsibilities. Prompt U.S. approval is important not only because the financing is needed, but also because it would be a sign of confidence to other governments and to the public, and would help lay to rest concerns about the risks to global recovery posed by the international debt problem.

But most importantly, timely approval of these proposals is essential to our own economic interests -- to the prospects for American businesses and American jobs. I urge that you give the proposed legislation authorizing and appropriating our participation in the increase in IMF resources prompt and favorable consideration.

Chart A

OUTSTANDING FOREIGN DEBT OF NON-OPEC LDCs

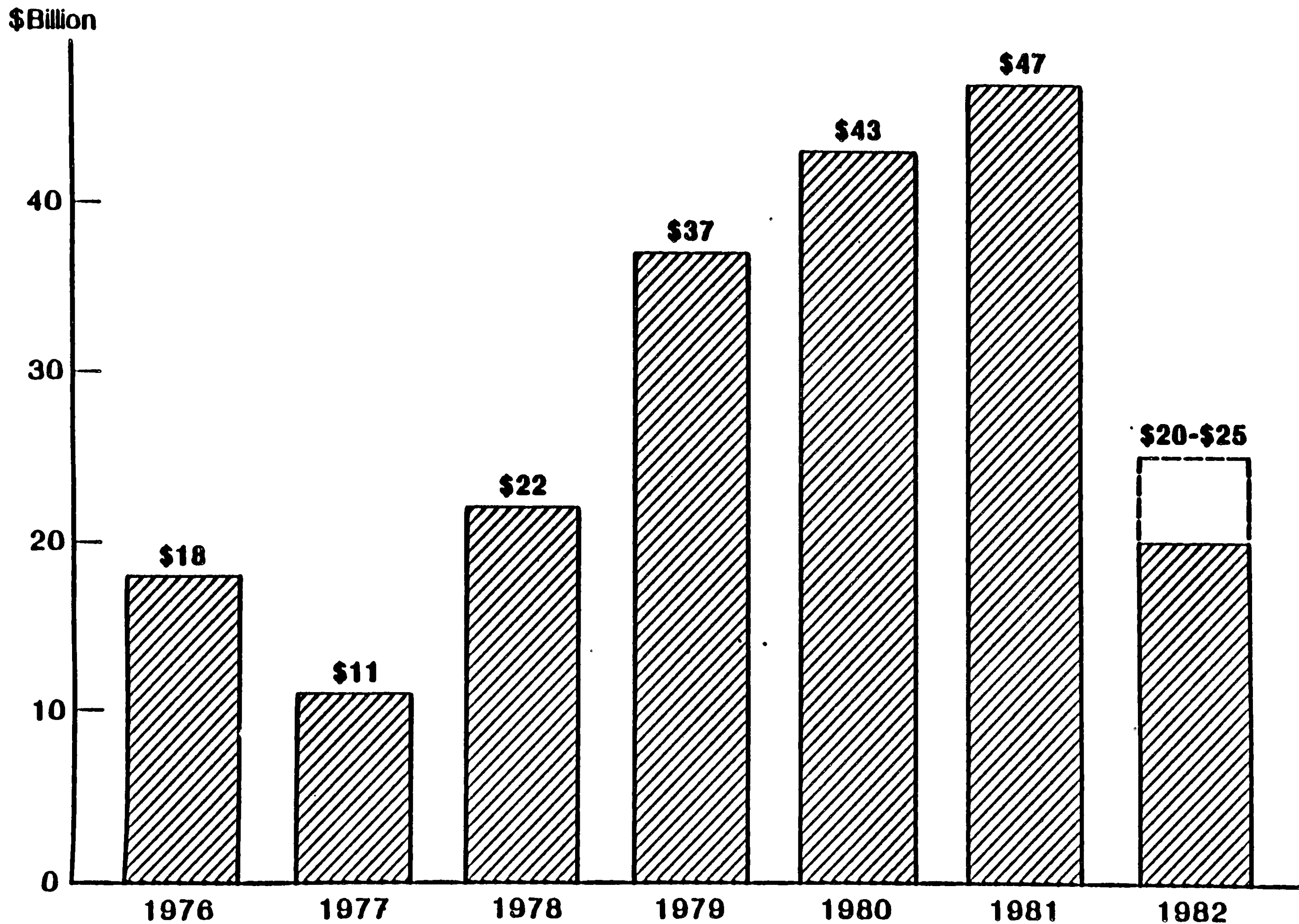


* Series break.

U.S. Treasury Dept.
2-11-83

Chart B

NET NEW LENDING BY COMMERCIAL BANKS TO NON-OPEC LDCs



U.S. Treasury Dept.
2-11-83

Chart C

GROWTH OF U.S. AND WORLD EXPORT VOLUME

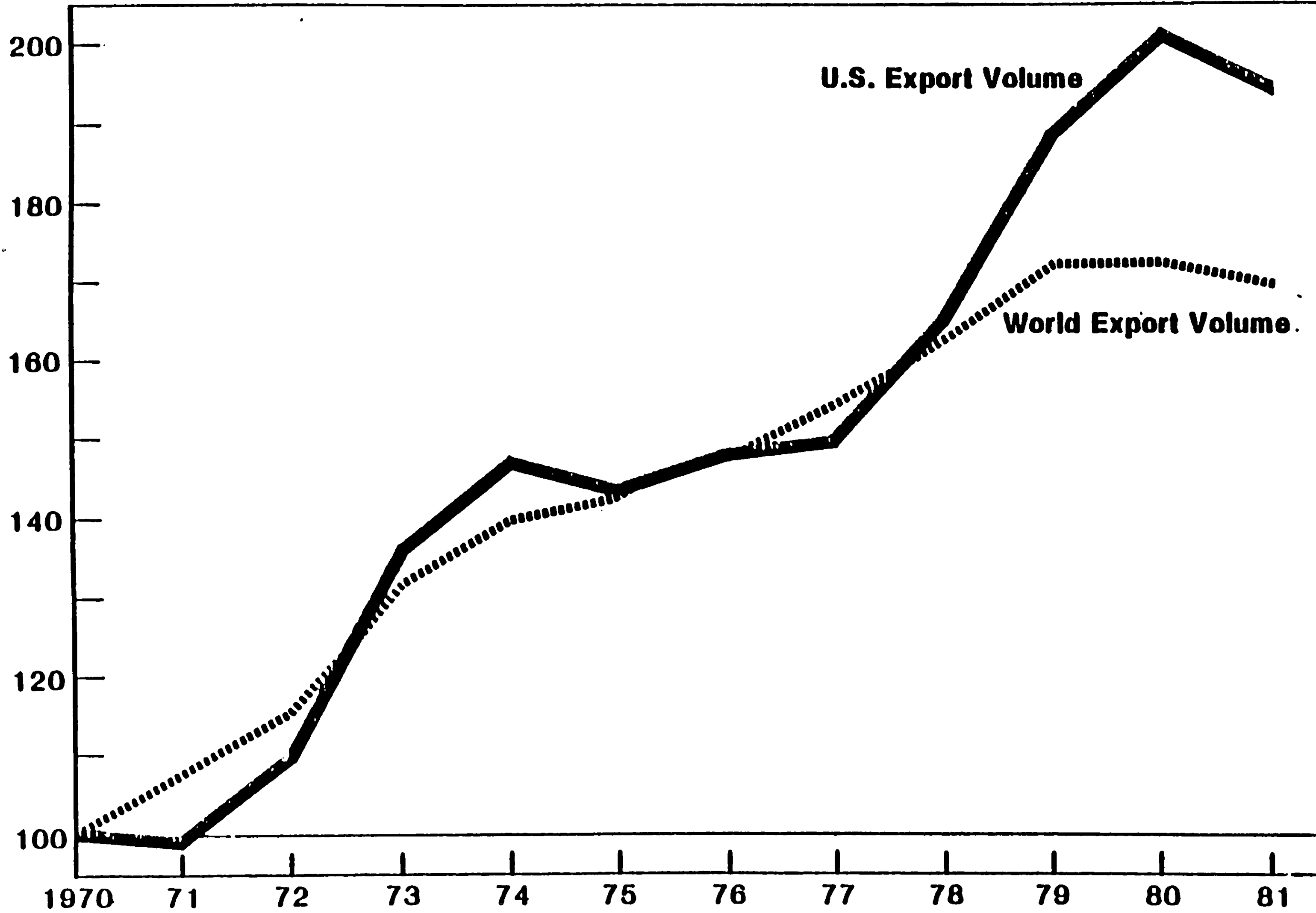
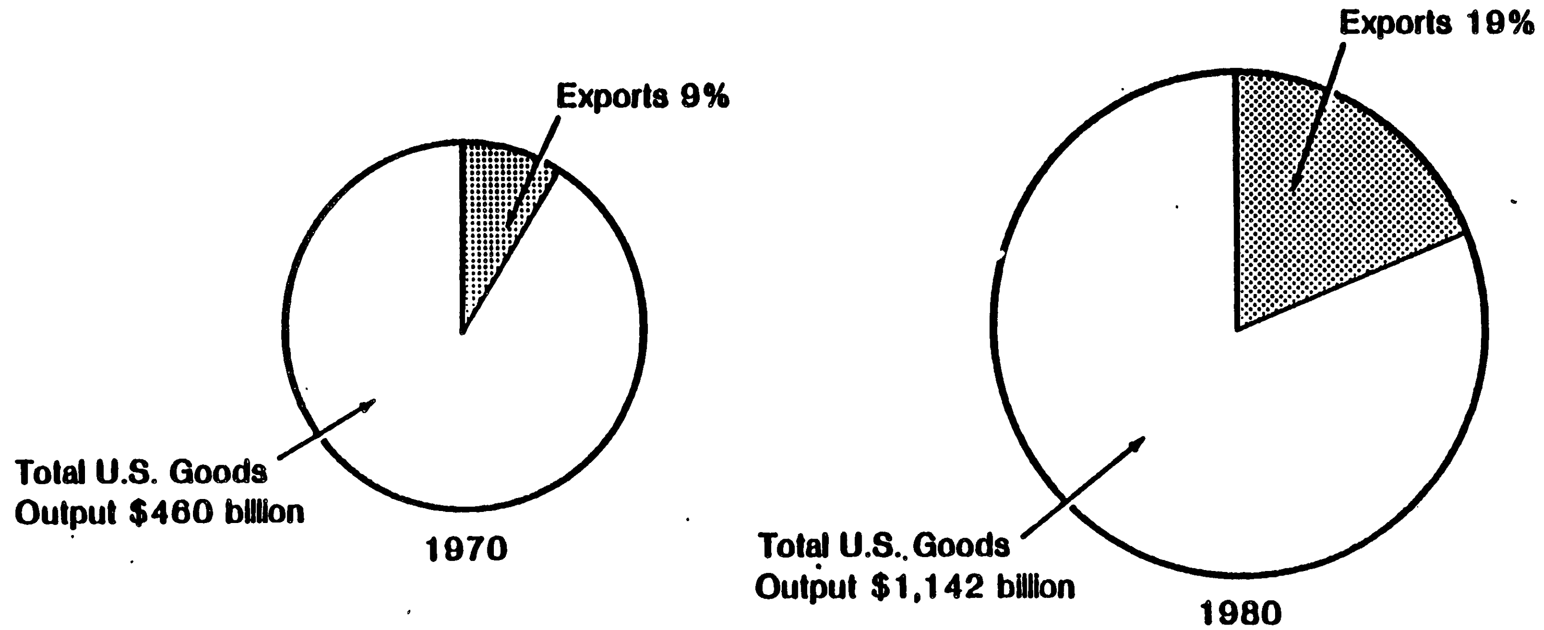


Chart D

SHARE OF U.S. EXPORTS IN TOTAL U.S. GOODS OUTPUT

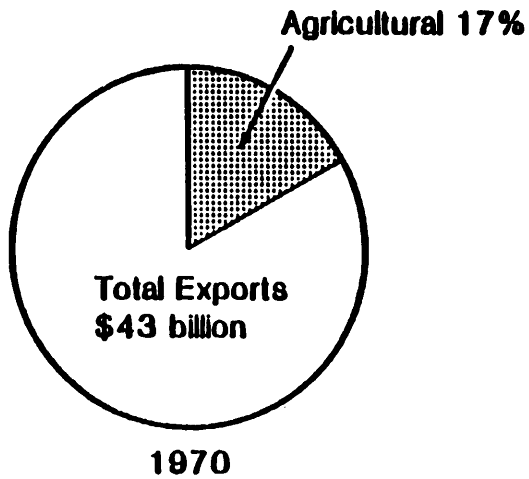


U.S. Treasury Dept.
2-11-83

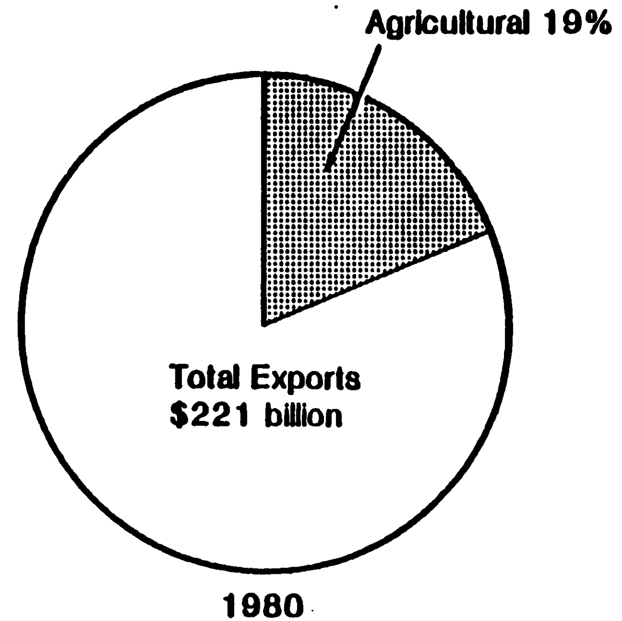
Chart E

U.S. AGRICULTURAL EXPORTS

Share in Total U.S. Exports:



1970



1980

Net U.S. Agricultural Trade Balance:

Surplus of $1.6 billion

Surplus of $24.3 billion

U.S. Treasury Dept.
2-11-83

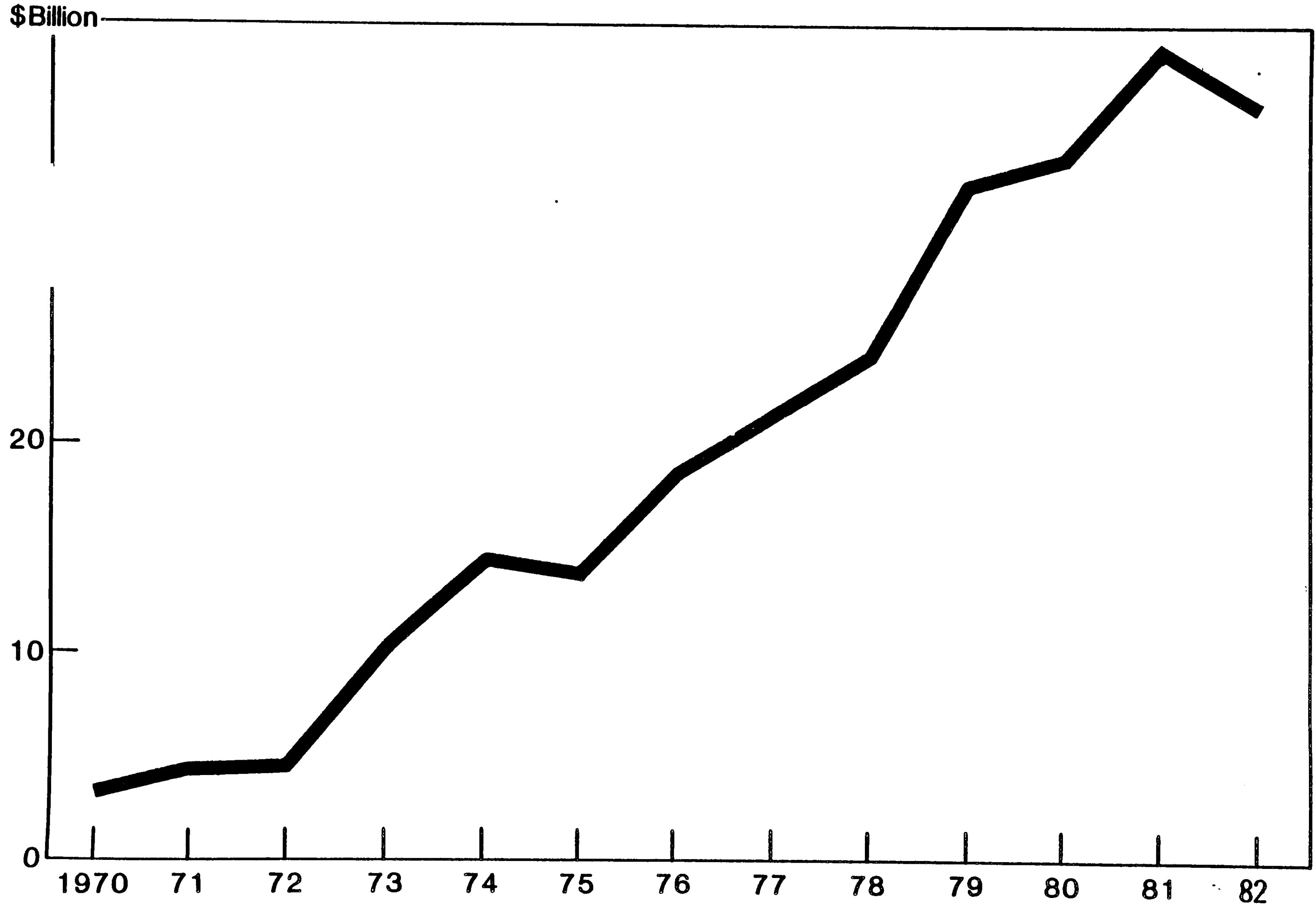
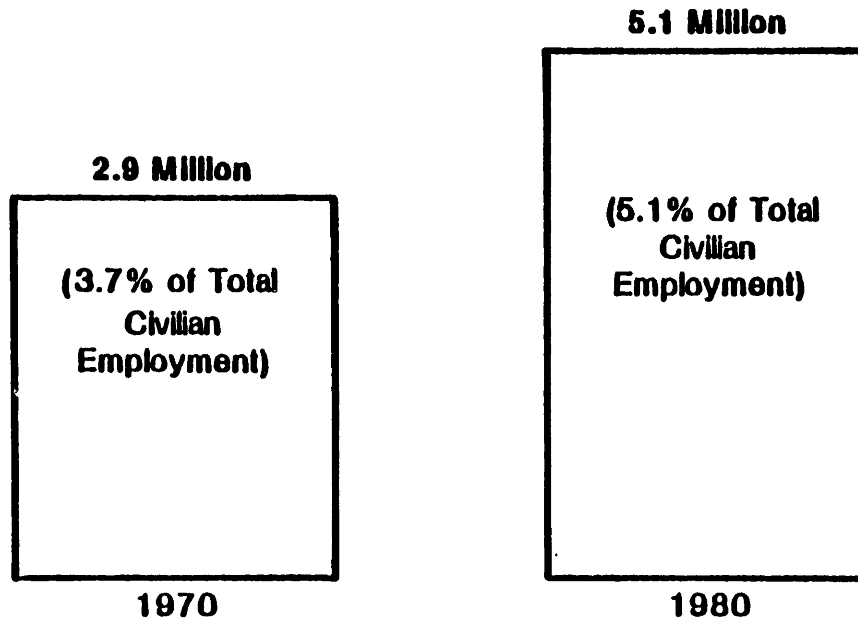


Chart F
U.S. TRADE BALANCE IN SERVICES
$ Billion
20
10
0
1970
71
72
73
74
75
76
77
78
79
80
81
82
U.S. Treasury Dept.
4-4-83

Chart G

U.S. EXPORT-RELATED JOBS



As of 1980, each $1 billion of U.S. exports was estimated to result in 24,000 jobs.

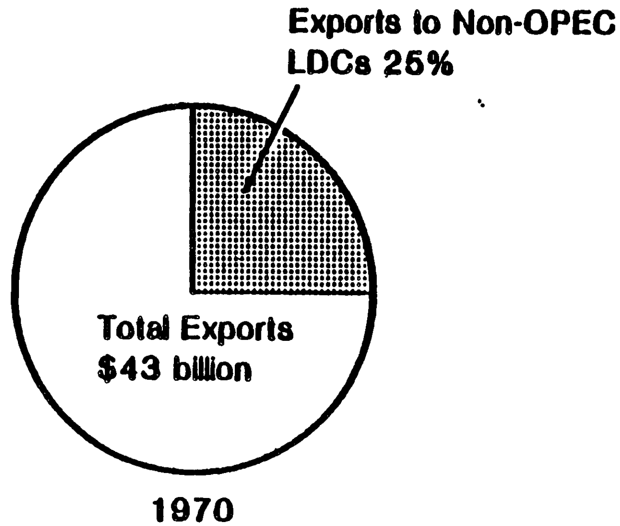
Source: Commerce Department (ITA) estimates.

U.S. Treasury Dept.
2-11-83

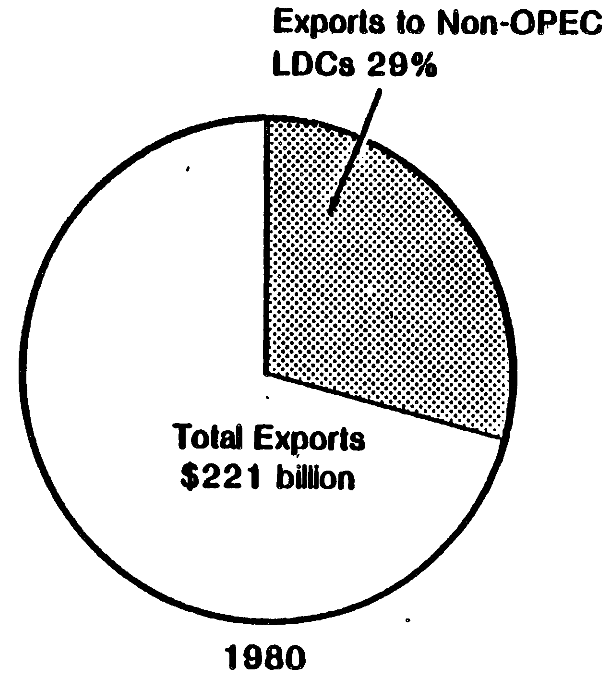
Chart H

U.S. EXPORTS TO NON-OPEC LESS DEVELOPED COUNTRIES

Share in Total U.S. Exports



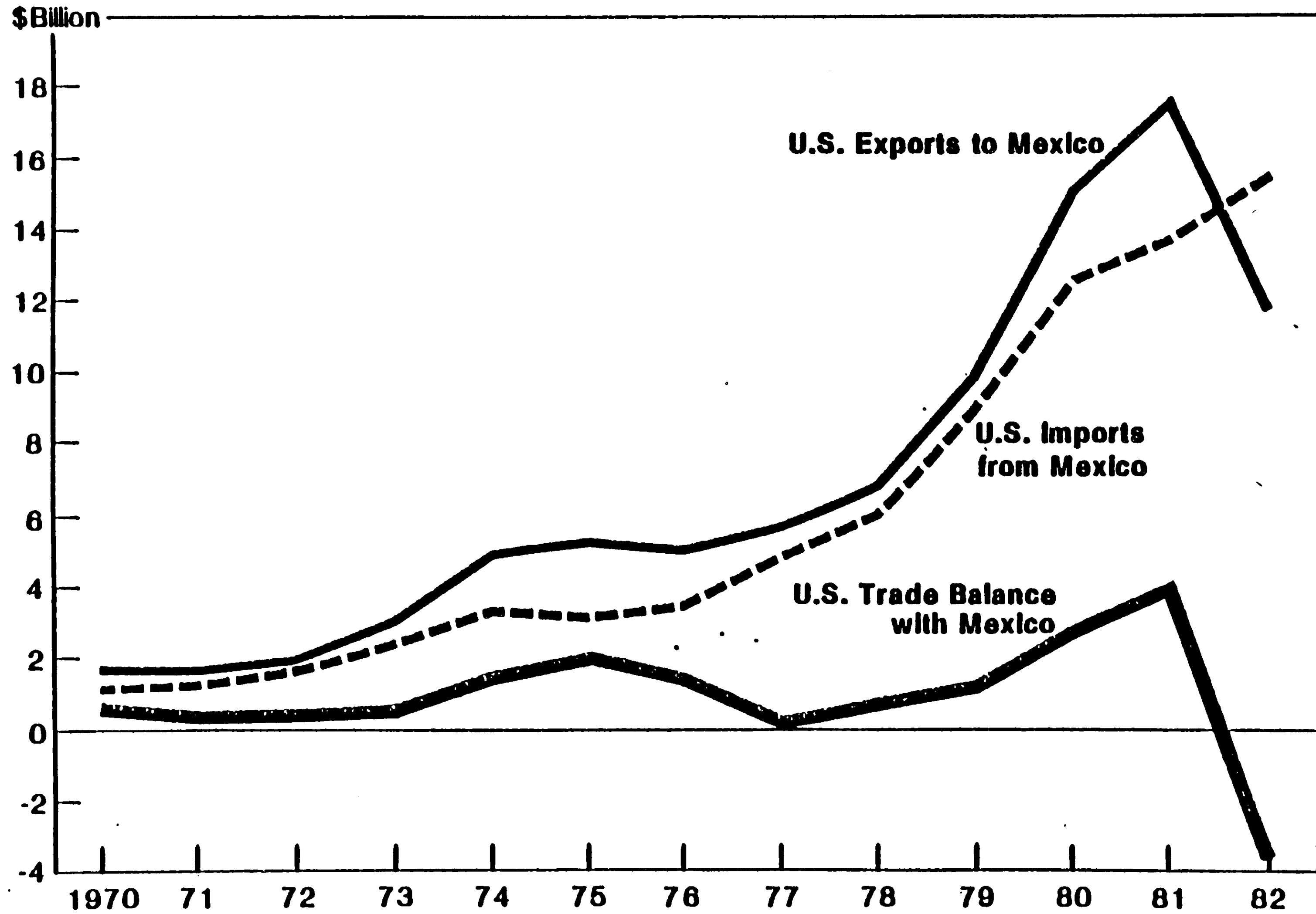
1970



1980

U.S. Treasury Dept.
2-11-83

Chart I



U.S. Treasury Dept.
2-11-83

INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 83/19 | FOR IMMEDIATE RELEASE
March 1, 1983

The Executive Board of the International Monetary Fund has completed the work necessary to enable a revision and enlargement of the General Arrangements to Borrow (GAB), which had recently been agreed in principle by the Group of Ten and the Fund. The main change is a substantial increase to SDR 17 billion in the credit arrangements available to the Fund from the present size of approximately SDR 6.4 billion. Other amendments to the existing GAB provisions will (i) permit the Fund to borrow under the enlarged credit arrangements to finance exchange transactions with members that are not GAB participants, (ii) authorize Swiss participation and (iii) permit certain borrowing arrangements between the Fund and non-participating members to be associated with the GAB, with the possibility that the Fund could activate the GAB as if the associated lenders were GAB participants.

The changes will become effective when all ten participants--Belgium, Canada, Deutsche Bundesbank, France, Italy, Japan, Netherlands, Sveriges Riksbank, United Kingdom and the United States--have notified the Fund in writing that they concur in the amendments and in the increased credit commitments. Participants are asked to do so by December 31, 1983. Swiss participation will become effective when the amended decision has become effective.

Under the GAB, which became effective on October 24, 1962, ten industrial members extended credit lines to the Fund. The arrangements have been periodically renewed, with some modifications, and in one case, that of Japan, the original amount of the credit line has been increased.

The Fund will continue to be able to call on GAB resources for any drawings by participants when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. As soon as the revision to the GAB becomes effective, the Fund may also call on GAB resources to finance drawings by Fund members that are not partipants provided those transactions are made under policies of the Fund requiring adjustment programs. Calls on the GAB will be made, in respect of non-participants, if the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members that would threaten the stability of the international monetary system.

The revised decision on the GAB and an annex showing the participants and amounts of credit arrangements under both the existing and the future GAB are attached.

Attachment

External Relations Department • Washington, D.C. 20431 • Telephone 202-477-3011

ATTACHMENT

GENERAL ARRANGEMENTS TO BORROW

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to make loans to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. Definitions

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by or extended arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

Paragraph 2. Credit Arrangements

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in special drawing rights set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

Paragraph 3. Adherence

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of the special drawing right, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the amount of the credit arrangement of the participant with the smallest credit arrangement.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

Paragraph 4. Entry into Force

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with

credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. Changes in Amounts of Credit Arrangements

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. Initial Procedure

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. Calls

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by or extended arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by or extended arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by or extended arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose

to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. Evidence of Indebtedness

(a) The Fund shall issue to a participant, on its request, non-negotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. Interest

(a) The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest due to a participant shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

Paragraph 10. Use of Borrowed Currency

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by and extended arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this Decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this Decision.

Paragraph 11. Repayment by the Fund

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under Paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this Paragraph 11(b) in the participant's currency, or in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the

next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.

(d) Repayment under Paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11 transfers under this Paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored pro tanto.

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. Rates of Exchange

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. Transferability

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. Notices

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. Amendment

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. Withdrawal of Adherence

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. Withdrawal from Membership

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's

credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. Suspension of Exchange Transactions and Liquidation

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. Period and Renewal

(a) This Decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. 7337-(83/37), adopted February 24, 1983. References in Paragraph 19(b) to the period prescribed in Paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to Paragraph 19(b). When considering a renewal of this Decision for the period following the five-year period referred to in this Paragraph 19(a), the Fund and the participants shall review the functioning of this Decision, including the provisions of Paragraph 21.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraph 8 through 14, 17 and 18(b) shall nevertheless continue to apply in

Paragraph 12. Rates of Exchange

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. Transferability

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. Notices

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. Amendment

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. Withdrawal of Adherence

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. Withdrawal from Membership

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's

credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. Suspension of Exchange Transactions and Liquidation

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. Period and Renewal

(a) This Decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. 7337-(83/37), adopted February 24, 1983. References in Paragraph 19(b) to the period prescribed in Paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to Paragraph 19(b). When considering a renewal of this Decision for the period following the five-year period referred to in this Paragraph 19(a), the Fund and the participants shall review the functioning of this Decision, including the provisions of Paragraph 21.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraph 8 through 14, 17 and 18(b) shall nevertheless continue to apply in

connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. Interpretation

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

Paragraph 21. Use of Credit Arrangements for Nonparticipants

(a) The Fund may make calls in accordance with Paragraphs 6 and 7 for exchange transactions requested by members that are not participants if the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under stand-by arrangements extending beyond the first credit tranche, (iii) transactions under extended arrangements, or (iv) transactions in the first credit tranche in conjunction with a stand-by or an extended arrangement. All the provisions of this Decision relating to calls shall apply, except as otherwise provided in Paragraph 21(b).

(b) The Managing Director may initiate the procedure for making calls under Paragraph 7 in connection with requests referred to in Paragraph 21(a) if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to Paragraph 21(a) and (b), the Managing Director shall pay due regard to potential calls pursuant to other provisions of this Decision.

Paragraph 22. Participation of the Swiss National Bank

(a) Notwithstanding any other provision of this Decision, the

Swiss National Bank (hereinafter called the Bank) may become a participant by adhering to this Decision in accordance with Paragraph 3(c) and accepting, by its adherence, a credit arrangement in an amount equivalent to one thousand and twenty million special drawing rights. Upon adherence, the Bank shall be deemed to be a participating institution, and all the provisions of this Decision relating to participating institutions shall apply in respect of the Bank, subject to, and as supplemented by, Paragraph 22(b), (c), (d), (e), and (f).

(b) Under its credit arrangement, the Bank undertakes to lend any currency, specified by the Managing Director after consultation with the Bank at the time of a call, that the Fund has determined to be a freely usable currency pursuant to Article XXX(f) of the Articles.

(c) In relation to the Bank, the references to the balance of payments and reserve position in Paragraph 7(b) and (d), and Paragraph 11(e), shall be understood to refer to the position of the Swiss Confederation.

(d) In relation to the Bank, the references to a participant's currency in Paragraph 9(c), Paragraph 11(a) and (b), and Paragraph 18(b) shall be understood to refer to any currency, specified by the Managing Director after consultation with the Bank at the time of payment by the Fund, that the Fund has determined to be a freely usable currency pursuant to Article XXX(f) of the Articles.

(e) Payment of special drawing rights to the Bank pursuant to Paragraph 9(c) and Paragraph 11 shall be made only while the Bank is a prescribed holder pursuant to Article XVII of the Articles.

(f) The Bank shall accept as binding a decision of the Fund on any question of interpretation raised in connection with this Decision which falls within the purview of Article XXIX of the Articles, to the same extent as that decision is binding on other participants.

Paragraph 23. Associated Borrowing Arrangements

(a) A borrowing arrangement between the Fund and a member that is not a participant, or an official institution of such a member, under which the member or the official institution undertakes to make loans to the Fund for the same purposes as, and on terms comparable to, those made by participants under this Decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with Paragraphs 6 and 7 for exchange transactions with that member, or to make requests under Paragraph 11(e) in connection with an early repayment of a claim under the borrowing arrangement, or both. For the purposes of this Decision such calls or requests shall be treated as if they were calls or requests in respect of a participant.

(b) Nothing in this Decision shall preclude the Fund from entering into any other types of borrowing arrangements, including an arrangement between the Fund and a lender, involving an association with participants, that does not contain the authorizations referred to in Paragraph 23(a).

ANNEX

Participants and Amounts of Credit Arrangements

I. Prior to the Effective Date of Decision No. 7337-(83/37)

	Participant		Amount in Units of Participant's currency
1.	United States of America	US$	2,000,000,000
2.	Deutsche Bundesbank	DM	4,000,000,000
3.	United Kingdom	£	357,142,857
4.	France	F	2,715,381,428
5.	Italy	Lit	343,750,000,000
6.	Japan	Yen	340,000,000,000
7.	Canada	Can$	216,216,000
8.	Netherlands	f.	724,000,000
9.	Belgium	BF	7,500,000,000
10.	Sveriges Riksbank	SKr	517,320,000

II. From the Effective Date of Decision No. 7337-(83/37)

	Participant	Amount in special drawing rights
1.	United States of America	4,250,000,000
2.	Deutsche Bundesbank	2,380,000,000
3.	Japan	2,125,000,000
4.	France	1,700,000,000
5.	United Kingdom	1,700,000,000
6.	Italy	1,105,000,000
7.	Canada	892,500,000
8.	Netherlands	850,000,000
9.	Belgium	595,000,000
10.	Sveriges Riksbank	382,500,000
11.	Swiss National Bank*	1,020,000,000
		17,000,000,000

*With effect from the date on which the Swiss National Bank adheres to this Decision in accordance with Paragraph 22.

IMF Drawings by the United States

The United States has drawn on the International Monetary Fund (IMF) on twenty-four occasions over the past 19 years for a total of about SDR 5.8 billion (equivalent to about $6.5 billion at the exchange rates prevailing at the time of each drawing), the second largest amount of cumulative drawings of any IMF member. None of these drawings was subject to IMF policy conditionality, as they all involved drawings on the U.S. reserve position in the IMF. Drawings on the reserve position are available automatically upon representation of balance of payments need; do not bear interest and are not subject to repurchase obligations; and do not involve policy conditionality.

The U.S. drawings were for the following purposes: during the 1960s and early 1970s they were designed to limit foreign purchases of U.S. gold reserves; subsequently, they were designed to provide the United States with foreign currencies for the purpose of exchange market operations. These purposes are explained below. A table listing all U.S. drawings is attached.

Drawings During the 1960s and 1970s

Under the international monetary arrangements in operation following World War II, each member of the IMF was required to establish and maintain a "par value" for its currency in terms of gold. The United States undertook to fulfill its par value obligations by standing ready to convert dollars held by foreign monetary authorities into gold at the official price of $35 per ounce -- i.e., the par value of the dollar. Other countries met their par value obligations by maintaining exchange rates for their currencies -- directly or indirectly -- in terms of the dollar within narrow margins. In this manner, a strucuture of currency exchange rates linked to gold was established and maintained.

During the 1950s and 1960s, large payments imbalances, substantial losses of U.S. gold and foreign accumulations of dollar holdings, representing further potential strains on U.S. gold, put increasing strain on this system. Beginning in the early 1960s the United States, in cooperation with foreign monetary authorities, initiated a variety of measures designed to limit pressures on U.S. gold holdings. U.S. drawings on the IMF were an integral part of this program.

In general, IMF drawings provided the United States with foreign currencies that could be used to purchase dollars from foreign monetary authorities and thus reduce demands for conversion of official dollar holdings to gold. The foreign currencies obtained from the IMF were used most often in the following types of transactions:

- -- to facilitate repayment of IMF drawings by other countries without necessitating the use of U.S. gold;
- -- repayment of U.S. short-term currency swaps with foreign central banks; and
- -- direct purchases by the United States of foreign official dollar holdings that would otherwise be used to purchase U.S. gold.

Drawings Since the Early 1970s

With the end of the par value/gold convertibility arrangements in the early 1970s, the basic purpose of U.S. drawings from the IMF was to finance U.S. intervention in the exchange markets in support of the dollar. During the 1970s, the U.S. intervened directly in the foreign exchange market, buying and selling foreign currencies for dollars, in order to deal with exchange market pressures on the dollar. The foreign currencies obtained from U.S. drawings in the IMF provided an important source of funds for such intervention. In November 1978, a U.S. drawing of $3 billion of German marks and Japanese yen was a component of a major program of U.S. and foreign intervention in the exchange market to support the dollar.

IMF Drawings by the United States
(SDR Millions)

Date		Amount
1964:	Feb	125
	June	125
	Sept	150
	Dec	125
	Total	525
1965	March	75
	July	300
	Sept	60
	Total	435
1966	Jan	100
	March	60
	April	30
	May	30
	July	71
	Aug	282
	Sept	35
	Oct	31
	Nov	12
	Dec	30
	Total	681

Date		Amount
1968:	March	200
	Total	200
1970:	May	150
	Total	150
1971:	Jan	250
	June	250
	Aug	862
	Total	1,362
1972:	April	200
	Total	200
1978:	Nov	2,275
	Total	2,275
Grand Total		5,828 1/

1/ Equivalent to about $6.5 billion at exchange rates prevailing at the time of each drawing.

Budgetary and Financing Impact of Transactions with the IMF under the U.S. Quota in the IMF and U.S. Loans to the IMF

Under budget and accounting procedures established in consultation with the Congress at the time of the 1980 increase in the U.S. IMF quota, an increase in the U.S. quota or line of credit to the IMF requires budget authorization and appropriation for the full amount of increases in the quota or U.S. lending arrangements. The sum is included in the budget authority totals for the fiscal year requested. Payment to the IMF of the increased quota subscription is made partly (25 percent) in reserve assets (SDRs or foreign currencies) and partly in non-interest bearing letters of credit, which are a contingent liability. Under the credit lines established pursuant to IMF borrowing arrangements with the United States, the Treasury is committed to provide funds upon call by the IMF.

A budget expenditure occurs only as cash is actually transferred to the IMF, through the 25 percent reserve asset payment, through encashment of the quota letter of credit, or against the borrowing arrangements. Simultaneous with such transfers, the U.S. receives an equal offsetting receipt, representing an increase in the U.S. reserve position in the IMF -- an interest-bearing, liquid international monetary asset that is available unconditionally to the United States in case of balance of payments need. As a consequence of these offsetting transactions, transfers to the IMF under the quota subscription or U.S. lending arrangements therefore do not result in net budget outlays, or directly affect the budget deficit. Similarly, payments of dollars by the IMF to the United States (for example, resulting from repayments by other IMF member countries) do not result in net budget receipts since the U.S. reserve position declines simultaneously by a like amount.

Transfers from the United States to the IMF under the U.S. quota or U.S. lending arrangements increase Treasury borrowing requirements, while transfers from the IMF to the United States improve the Treasury's cash position and reduce its borrowing requirement. The net effect of transfers to and from the IMF has varied widely over the years, resulting in cash outflows from the Treasury in some years and inflows to the Treasury in other years. Moreover, Treasury interest costs on borrowings to finance any net transfers to the IMF need to be balanced against the remuneration (interest) earned on the U.S. reserve position in the IMF. Finally, the U.S. may incur exchange gains and losses on the U.S. reserve position in the IMF due to changes in the dollar value of the SDR.

It is not possible to project the effect on Treasury borrowing requirements or the net cost of U.S. transactions with the IMF because of uncertainties regarding the future level of IMF financing; the portion of such financing that would be in dollars; and

movements in market interest and exchange rates. However, the figures in the attached table indicate that for the period from July 1, 1969, to the end of 1982:

-- Net increases in Treasury borrowing requirements attributable to transactions with the IMF averaged $498 million annually, compared to average annual increases in Treasury borrowing of $61 billion.

-- Treasury debt outstanding attributable to transactions with the IMF averaged $1.9 billlion annually. This is not an annual increase in Treasury borrowing, but an estimate of the average total debt outstanding each year attributable to cumulative U.S. transactions with the IMF. During fiscal 1982, the average outstanding Treasury borrowing attributable to such transactions amounted to $5.3 billion, about 1/2 of 1 percent of the total outstanding Treasury debt of $1.1 trillion at the end of the fiscal year.

-- Net interest costs to the Treasury associated with all U.S. transactions with the IMF averaged $45 million annually. In fiscal 1982, interest costs on total Treasury debt amounted to $117 billion.

-- Net annual valuation losses to the U.S. on the U.S. reserve position in the IMF averaged $62 million.

-- The overall net annual cost to the U.S., taking account of interest and valuation, thus averaged $107 million.

Revised to U.S.
Fiscal Year Basis
March 4, 1983

TABLE 1

Estimated Public Debt, Servicing Costs and Budgetary Effects Associated With U.S. Transactions Under U.S. Quota and U.S. Loans to IMF, FY 1970-1983I

(millions of dollars)

During U.S. Fiscal Year	Average Outstanding Net Treasury Debt(-) or Cash(+) Position Arising From: Transactions Under U.S. Quota 1/ (1)	U. S. Loans to IMF 2/ (2)	Total 3/ (3)	Est. Treasury Borrowing Cost(-) or Reduction(+) from Column(3) 4/ (4)	Interest Received by U.S. on Loans to IMF 5/ (5)	Remuneration Received by U.S. from IMF 6/ (6)	Valuation Gains(+) or Losses(-) on U.S. Reserve Position 7/ (7)	Interest Earned on Holdings of Foreign Currencies Drawn from IMF 8/ (8)	Total Estimated Net Budgetary Receipts(+) or Outlays(-) 9/ (9)
1970	-860	-	-860	-66	-	+13	-	-	-53
1971	-571	-	-571	-28	-	+12	-	-	-16
1972	+631	-	+631	+26	-	*	+34	-	+60
1973	+801	-	+801	+42	-	-	-	-	+42
1974	+627	-	+627	+50	-	-	+54	-	+104
1975	-481	-	-481	-32	-	*	+48	-	+16
1976	-1,131	-	-1,131	-63	-	+9	-168	-	-222
TQ	-2,467	-	-2,467	-32	-	-	+39	-	+7
1977	-2,973	-379	-3,352	-164	+14	+79	+27	-	-44
1978	-2,314	-663	-2,977	-196	+31	+80	+369	-	+284
1979	-834	-64	-898	-83	+12	+27	+212	+48	+216
1980	-609	-94	-703	-78	*	-	-13	+40	-51
1981	-2,183	-559	-2,742	-376	+46	+22	-1,295	+69	-1,534
1982	-4,233	-1,036	-5,269	-619	+122	+216	-323	+76	-528
1983I	-5,464	-1,308	-6,772	-134	-	+222 10/	+173	+15	+276
Total Period: 7/1/69-12/31/82				-1,753	+225	+680	-843	+248	-1,443
Annual Average	-1,634	-304	-1,938	-130	+17	+50	-62	+18	-107

Footnotes to Table 1

*Indicates less than $500,000.

1/ Estimate of average outstanding Treasury debt or cash position during period arising from U.S. transfers of dollars to the IMF (i.e., an outflow of dollars from Treasury) and dollar balances received by the U.S. from the IMF and from sales of foreign currency drawn by the U.S. from the IMF (i.e., an inflow of dollars to the Treasury).

2/ Estimate of average outstanding Treasury debt during period arising from U.S. loans and repayments under the IMF's General Arrangements to Borrow and Supplementary Financing Facility.

3/ Sum of columns 1 and 2. Transfers to and from the IMF under the U.S. quota subscription or U.S. lending arrangements result in budget outlays and simultaneous receipts of U.S. reserve position in the IMF; these transactions have a zero effect on net outlays and the budget deficit.

4/ Estimate of interest paid or borrowing reduced during period as result of cumulative debt or cash position arising from U.S. transactions with IMF; equals column 3 times average Treasury 3-month bill rate during period. Payments enter the U.S. budget as interest on the public debt; inflows reduce Treasury's need to borrow and thus reduce interest expense.

5/ Enters the U.S. budget as a receipt.

6/ Remuneration on U.S. creditor position; prior to 1975, remuneration was 1.5 percent, although special income distributions were made in 1970 and 1971 which raised the effective rate to 2.0 percent in those years. From 1975, the rate was based on short-term market interest rates in the five largest IMF members (U.S., U.K., Germany, France, Japan). Enters the U.S. budget as a receipt. Payments are made by IMF annually, as of April 30.

Reflects changes in the dollar value of the U.S. reserve position in the IMF due to an appreciation (-) or depreciation (+) of the dollar in terms of the SDR. Enters the U.S. budget as a positive or negative net outlay.

Interest earned on investments of German marks and Japanese yen acquired from U.S. drawing on IMF in November 1978. Enters the U.S. budget as part of the net profit or loss of the Exchange Stabilization Fund of the Treasury, recorded as a positive or negative net outlay.

Equal to the sum of columns 4 through 8.

Remuneration accrued May-December 1982, following receipt of remuneration for IMF fiscal year ending April 1982.

TABLE 2

Estimated Annual Treasury Public Borrowing Requirements and Financing Costs Related to U.S. Transactions Under U.S. Quota and U.S. Loans to IMF, FY 1970-1983I
(millions of dollars)

During U.S. Fiscal Year	Dollar Funds Supplied(-) or Received(+) by Treasury During Period, Arising From: Transactions Under U.S. Quota 1/	U.S. Loans to IMF 2/	Total 3/	Estimated Treasury Borrowing Cost(-) or Reduction(+) Arising from Debt or Cash Position Related to IMF Transactions 4/
1970	-802	-	-802	-66
1971	+908	-	+908	-28
1972	+986	-	+986	+26
1973	-50	-	-50	+42
1974	-471	-	-471	+50
1975	-1,073	-	-1,073	-32
1976	-1,205	-	-1,205	-63
TQ	-702	-	-702	-32
1977	-105	-662	-767	-164
1978	+963	+39	+1,002	-196
1979	+1,333	+633	+1,966	-83
1980	-412	-303	-715	-78
1981	-2,359	-537	-2,896	-376
1982	-1,826	-345	-2,171	-619
1983I	-572	-160	-732	-134
Total Net Change: 7/1/69-12/31/82	-5,387	-1,335	-6,722	-1,753
Annual Average Change:	-399	-99	-498	-130

Footnotes to Table 2

1/ U.S. transfers of dollars to the IMF (i.e., an outflow of dollars from Treasury) and dollar balances received by the U.S. from the IMF and from sales of foreign currency drawn by the U.S. from the IMF (i.e., an inflow of dollars to the Treasury).

2/ U.S. loans and repayments under the IMF's General Arrangements to Borrow and Supplementary Financing Facility; includes interest received in dollars by the U.S.

3/ Total net dollar funds supplied or received by Treasury annually; indicates impact on Treasury public borrowing requirements.

4/ Estimated cost of servicing annual average of outstanding public debt associated with transactions under U.S. quota and on U.S. loans to IMF; from Table 1.

INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 83/17

FOR IMMEDIATE RELEASE
March 1, 1983

The Executive Board of the International Monetary Fund has taken two actions which, when they become effective, will substantially increase the Fund's ability to extend balance of payments assistance to its member countries.

Under the first action, the Executive Board has submitted a resolution to the Board of Governors containing proposals for increases in members' quotas under the Eighth General Review of Quotas in the Fund. If all members accept the increases in their quotas to the proposed amounts, total quotas in the Fund would rise to approximately SDR 90 billion from SDR 61 billion.

Under the second action, the Executive Board has adopted a decision approving a revision and an enlargement of the General Arrangements to Borrow (GAB), which, when it becomes effective, will, inter alia, increase the amount of resources available to the Fund under the GAB from approximately SDR 6.4 billion to SDR 17 billion, and make GAB resources available to finance purchases by any Fund member.

Attached are two separate press releases (Nos. 83/18 and 83/19) containing additional information on the proposals for the Eighth General Review of Quotas and the decision on the General Arrangements to Borrow.

Attachments

External Relations Department • Washington, D.C. 20431 • Telephone 202-477-3011

INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 83/18

FOR IMMEDIATE RELEASE
March 1, 1983

The Executive Board of the International Monetary Fund has submitted a Resolution to the Board of Governors proposing an increase in Fund quotas to approximately SDR 90 billion from SDR 61 billion.

The Governors are to vote on the proposed Resolution, without meeting, by March 31, 1983. The adoption of the Resolution requires a majority of 85 per cent of the total voting power of the Fund's membership.

The Resolution is accompanied by a report of the Executive Board on matters relating to the Eighth General Review of Quotas, and follows agreements reached by the Interim Committee at its meeting on February 10-11, 1983 in Washington, D.C. Annexed to the Resolution are the quotas proposed for each member which were arrived at in the following way:

Forty per cent of the overall increase was distributed to all members in proportion to their present individual quotas, and the balance of 60 per cent was distributed in the form of selective adjustments in proportion to each member's share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.

Twenty-five per cent of the increase in each member's quota will be paid in SDRs, or in currencies of other members prescribed by the Fund, subject to their concurrence.

The Executive Board also considered the position of the 17 members with very small quotas, i.e., those quotas that are currently less than SDR 10 million. As noted in its report to the Board of Governors, the Executive Board recommends that the quotas of these 17 members shall, after being increased by the method applicable uniformly to all members, be further adjusted to the next higher multiple of SDR 0.5 million. All other quotas would be rounded to the next higher multiple of SDR 0.1 million.

Under the Resolution, members would have until November 30, 1983 to consent to the proposed increases. In order to meet this date members will need to expedite whatever action may be necessary under their laws to enable them to give their consent to the quotas proposed for them. A member's quota cannot be increased until it has consented to the increase and paid the subscription in full. No increase in quota becomes effective before the date of the Fund's determination that members having not less than 70 per cent of present quotas have consented to the increases proposed for them.

- over -

The report of the Executive Board to the Board of Governors on the increase in quotas of Fund members under the Eighth General Review, and the Resolution as sent to the Board of Governors with the Annex showing the proposed quotas for all members, are attached.

Attachments

ATTACHMENT I

INTERNATIONAL MONETARY FUND

Report of the Executive Directors to the Board of Governors:
Increase in Quotas of Fund Members - Eighth General Review

1. Article III, Section 2(a) of the Articles of Agreement provides that "The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate, propose an adjustment of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned." This report and the attached Resolution on increases in quotas under the current, i.e., Eighth, General Review are submitted to the Board of Governors in accordance with Article III, Section 2.

2. The Seventh General Review of Quotas was completed by Board of Governors Resolution No. 34-2, adopted December 11, 1978. To comply with the five-year interval prescribed by Article III, Section 2(a), the Eighth General Review has to be completed not later than December 11, 1983. In the Report of the Executive Board to the Board of Governors on Increases in Quotas of Fund Members—Seventh General Review, it was stated that:

> "The Executive Board will review the customary method of calculating quotas after the Seventh Review of Quotas has been completed. In the context of the next general review of quotas, the Executive Board will examine the quota shares of members in relation to their positions in the world economy with a view to adjusting those shares better to reflect members' relative economic positions while having regard to the desirability of an appropriate balance in the composition of the Executive Board."

3. At its meeting in Helsinki, Finland, in May 1982, the Interim Committee urged the Executive Board to pursue its work on the Eighth General Review as a matter of high priority. At that meeting the Committee also "... noting that the present quotas of a significant number of members do not reflect their relative positions in the world economy, ... reaffirmed its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of these members more in line with their relative positions, taking account of the case for maintaining a proper balance between the different groups of countries." At its meeting in Toronto, Canada, in September 1982, the Committee noted that "there was widespread support in the Committee on the urgent need for a substantial increase in quotas under the Eighth General Review" and "urged the Executive Board to pursue its work on the issues of the Review as a matter of high priority, so that the remaining issues on the size and distribution of the quota increase could be resolved by the time of the Committee's next meeting in April 1983."

4. In its discussions on the Eighth General Review, the Executive Board has considered, inter alia, (i) the method of calculating quotas; (ii) the size of the overall increase in quotas; (iii) the distribution of the overall increase; (iv) the position of countries with very small quotas in the Fund; and (v) the mode of payment for the increase in quotas.

5. As regards the Executive Board's review of the method of calculating quotas, the Executive Board agreed to certain changes regarding the quota formulas used for calculating quotas in connection with the Eighth General Review. The Executive Board accepted the quota calculations based on the revised quota formulas as reasonable indicators of the relative positions of countries in the world economy, though some Directors felt that they do not provide a wholly satisfactory measure of relative economic positions. It is understood that the changes that have been made do not preclude further appropriate changes in connection with future reviews.

6. At the meeting of the Interim Committee held in Washington in February 1983, which had been advanced from April 1983, agreement was reached on all major issues of the Eighth Review, as reflected in the relevant passages from the Committee's communique of February 11, 1983, as follows:

> "(a) The total of Fund quotas should be increased under the Eighth General Review from approximately SDR 61.03 billion to SDR 90 billion (equivalent to about US$98.5 billion).
>
> (b) Forty per cent of the overall increase should be distributed to all members in proportion to their present individual quotas, and the balance of sixty per cent should be distributed in the form of selective adjustments in proportion to each member's share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.
>
> (c) Twenty-five per cent of the increase in each member's quota should be paid in SDRs or in usable currencies of other members."

The Committee also considered the possibility of a special adjustment of very small quotas, i.e., those quotas that are currently less than SDR 10 million, and agreed to refer this matter to the Executive Board for urgent consideration in connection with the implementation of the main decision.

7. As requested by the Interim Committee at its meeting on February 11, 1983, the Executive Board has considered the position of the 17 members with very small quotas--i.e., those with quotas that at present are less than SDR 10 million. The Executive Board proposes that the quotas of these members should, after being increased in accordance with (b) quoted

in paragraph 6 above, be further adjusted to the next higher multiple of SDR 0.5 million. The Executive Board proposes that all other quotas be rounded to the next higher multiple of SDR 0.1 million. The rounding to SDR 0.5 million would provide for larger quota increases relative to present quotas for most of the members with very small quotas.

8. In accordance with the agreement reached by the Interim Committee at its meeting on February 11, 1983, on items (a) and (b) quoted in paragraph 6 above and with rounding adjustments indicated in paragraph 7 above, the Executive Board proposes to the Board of Governors that the new quotas of members be as set out in the Annex to the proposed Resolution. These increases would raise Fund quotas from approximately SDR 61 billion to approximately SDR 90 billion.

9. Article III, Section 3(a) provides that 25 per cent of any increase shall be paid in special drawing rights, but permits the Board of Governors to prescribe, inter alia, that this payment may be made on the same basis for all members, in whole or in part in the currencies of other members specified by the Fund, subject to their concurrence. Paragraph 5 of the Resolution provides that 25 per cent of the increase in quotas proposed as a result of the current review should be paid in SDRs or in currencies of other members selected by the Fund, subject to their concurrence, or in any combination of SDRs and such currencies. The balance of the increase shall be paid in a member's own currency. A reserve asset payment will help strengthen the liquidity of the Fund and will not impose an undue burden on members because under the existing decisions of the Fund a reserve asset payment will either enlarge or create a reserve tranche position of an equivalent amount. In addition, the Fund stands ready to assist members that do not hold sufficient reserves to make their reserve asset payments to the Fund to borrow SDRs from other members willing to cooperate; these loans would be made on the condition that such members would repay on the same day the loans from the SDR proceeds of drawings of reserve tranches which had been established by the payment of SDRs.

10. Under the proposed Resolution, a member will be able to consent only to the amount of quota proposed for it in the Annex. A member will be able to consent to the increase in its quota at any time before 6:00 p.m., Washington time, November 30, 1983. In order to meet this time, members will have until the end of November 1983 to complete whatever action may be necessary under their laws to enable them to give their consents.

11. A member's quota cannot be increased until it has consented to the increase and paid the subscription. Under the proposed Resolution, the increase in a member's quota will take effect only after the Fund has received the member's consent to the increase in quota and a member has paid the increase in subscription, provided that the quota cannot become effective before the date on which the Fund determines that the participation requirement in paragraph 2 of the proposed Resolution has been satisfied. The Executive Board is authorized by paragraph 3 of the proposed Resolution to extend the period of consent.

12. The participation requirement in paragraph 2 will be reached when the Fund determines that members having not less than seventy per cent of the total of quotas on February 28, 1983 have consented to the increases in their respective quotas as set out in the Annex.

13. The proposed Resolution provides that a member must pay the increase in its subscription within 30 days after (a) the date on which the member notifies the Fund of its consent, or (b) the date on which the participation requirement is met, whichever is the later.

14. The Executive Board recommends that the Board of Governors adopt the attached Resolution that covers all the matters on which the Governors are requested to act. The adoption of the Resolution requires positive responses from Governors having an 85 per cent majority of the total voting power.

Attachment

Proposed Resolution of the Board of Governors:
Increase in Quotas of Fund Members--Eighth General Review

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members--Eighth General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Eighth General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 3 below and has paid the increase in quota in full, provided that no increase in quota shall become effective before the date of the Fund's determination that members having not less than 70 per cent of the total of quotas on February 28, 1983 have consented to the increases in their quotas.

3. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, November 30, 1983, provided that the Executive Board may extend this period as it may determine.

4. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent, or (b) the date of the Fund's determination under paragraph 2 above.

5. Each member shall pay twenty-five per cent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

ANNEX

	Country	Proposed Quota (In millions of SDRs)
1.	Afghanistan	86.7
2.	Algeria	623.1
3.	Antigua and Barbuda	5.0
4.	Argentina	1,113.0
5.	Australia	1,619.2
6.	Austria	775.6
7.	Bahamas	66.4
8.	Bahrain	48.9
9.	Bangladesh	287.5
10.	Barbados	34.1
11.	Belgium	2,080.4
12.	Belize	9.5
13.	Benin	31.3
14.	Bhutan	2.5
15.	Bolivia	90.7
16.	Botswana	22.1
17.	Brazil	1,461.3
18.	Burma	137.0
19.	Burundi	42.7
20.	Cameroon	92.7
21.	Canada	2,941.0
22.	Cape Verde	4.5
23.	Central African Republic	30.4
24.	Chad	30.6
25.	Chile	440.5
26.	China	2,390.9
27.	Colombia	394.2
28.	Comoros	4.5
29.	Congo, People's Republic	37.3
30.	Costa Rica	84.1
31.	Cyprus	69.7
32.	Denmark	711.0
33.	Djibouti	8.0
34.	Dominica	4.0
35.	Dominican Republic	112.1
36.	Ecuador	150.7
37.	Egypt	463.4
38.	El Salvador	89.0
39.	Equatorial Guinea	18.4
40.	Ethiopia	70.6

		Proposed Quota (In millions of SDRs)
41.	Fiji	36.5
42.	Finland	574.9
43.	France	4,482.8
44.	Gabon	73.1
45.	Gambia, The	17.1
46.	Germany	5,403.7
47.	Ghana	204.5
48.	Greece	399.9
49.	Grenada	6.0
50.	Guatemala	108.0
51.	Guinea	57.9
52.	Guinea-Bissau	7.5
53.	Guyana	49.2
54.	Haiti	44.1
55.	Honduras	67.8
56.	Hungary	530.7
57.	Iceland	59.6
58.	India	2,207.7
59.	Indonesia	1,009.7
60.	Iran, Islamic Republic of	1,117.4
61.	Iraq	504.0
62.	Ireland	343.4
63.	Israel	446.6
64.	Italy	2,909.1
65.	Ivory Coast	165.5
66.	Jamaica	145.5
67.	Japan	4,223.3
68.	Jordan	73.9
69.	Kampuchea, Democratic	25.0
70.	Kenya	142.0
71.	Korea	462.8
72.	Kuwait	635.3
73.	Lao People's Democratic Republic	29.3
74.	Lebanon	78.7
75.	Lesotho	15.1
76.	Liberia	71.3
77.	Libya	515.7
78.	Luxembourg	77.0
79.	Madagascar	66.4
80.	Malawi	37.2

		Proposed Quota (In millions of SDRs)
81.	Malaysia	550.6
82.	Maldives	2.0
83.	Mali	50.8
84.	Malta	45.1
85.	Mauritania	33.9
86.	Mauritius	53.6
87.	Mexico	1,165.5
88.	Morocco	306.6
89.	Nepal	37.3
90.	Netherlands	2,264.8
91.	New Zealand	461.6
92.	Nicaragua	68.2
93.	Niger	33.7
94.	Nigeria	849.5
95.	Norway	699.0
96.	Oman	63.1
97.	Pakistan	546.3
98.	Panama	102.2
99.	Papua New Guinea	65.9
100.	Paraguay	48.4
101.	Peru	330.9
102.	Philippines	440.4
103.	Portugal	376.6
104.	Qatar	114.9
105.	Romania	523.4
106.	Rwanda	43.8
107.	St. Lucia	7.5
108.	St. Vincent	4.0
109.	Sao Tome & Principe	4.0
110.	Saudi Arabia	3,202.4
111.	Senegal	85.1
112.	Seychelles	3.0
113.	Sierra Leone	57.9
114.	Singapore	250.2
115.	Solomon Islands	5.0
116.	Somalia	44.2
117.	South Africa	915.7
118.	Spain	1,286.0
119.	Sri Lanka	223.1
120.	Sudan	169.7

		Proposed Quota (In millions of SDRs)
121.	Suriname	49.3
122.	Swaziland	24.7
123.	Sweden	1,064.3
124.	Syrian Arab Republic	139.1
125.	Tanzania	107.0
126.	Thailand	386.6
127.	Togo	38.4
128.	Trinidad and Tobago	170.1
129.	Tunisia	138.2
130.	Turkey	429.1
131.	Uganda	99.6
132.	United Arab Emirates	385.9
133.	United Kingdom	6,194.0
134.	United States	17,918.3
135.	Upper Volta	31.6
136.	Uruguay	163.8
137.	Vanuatu	9.0
138.	Venezuela	1,371.5
139.	Viet Nam	176.8
140.	Western Samoa	6.0
141.	Yemen Arab Republic	43.3
142.	Yemen, People's Democratic Republic of	77.2
143.	Yugoslavia	613.0
144.	Zaire	291.0
145.	Zambia	270.3
146.	Zimbabwe	191.0

FOR IMMEDIATE RELEASE
April 8, 1983

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Treasury Announces Citibank Settlement

Citibank has received $125 million in payment on its non-syndicated loan claims against Iran.

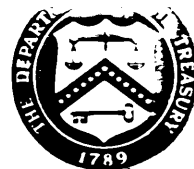
This payment was made from the escrow account (known as "Dollar Account No. 2") established at the Bank of England with the deposit of $1.418 billion in January 1981, following the release of the U.S. nationals held hostage in Iran. Citibank in turn paid $132 million to Markazi in settlement of Iran's claims against Citibank for interest on blocked Iranian accounts.

This was the sixth settlement reached by a U.S. bank having outstanding loan claims against Dollar Account No. 2. Other banks which have settled their claims are Chemical Bank, Allied Bank International of New York, First Wisconsin National Bank of Milwaukee, the Fidelity Bank of Philadelphia, Pennsylvania, and American Security Bank of Washington, D.C.

Additional U.S. banks are presently meeting with Bank Markazi in London and are in the process of negotiating their respective claims with Bank Markazi. Further bank settlements are expected to follow over the next several months.

John M. Walker, Jr., Assistant Secretary of the Treasury for Enforcement and Operations said, "The Citibank settlement is a significant milestone in the implementation of the Algier Accords and in the Iran claims settlement process. This is the largest and most complex bank settlement to date. It is a clear indication that the claims settlement process is working and that U.S. banks having claims against Account No. 2 can expect to have their claim settled within a reasonable period of time."

TREASURY NEWS



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

FOR IMMEDIATE RELEASE
April 8, 1983

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Treasury Announces Meeting with Japanese to Discuss Import Entry Procedures

Assistant Secretary of the Treasury John M. Walker, Jr. today announced that Treasury will be conducting a review of Japanese import entry procedures now applied to American goods to determine the extent to which they vary from U.S. import entry procedures currently being applied to Japanese goods.

"The U.S. Customs Service is vitally concerned with how import entry procedures affect international trade and the world economy. This is particularly true with regard to Japan, a major trading partner," Mr. Walker said.

Assistant Secretary Walker will be heading the U.S. Delegation at a meeting of the U.S.-Japanese Customs Liaison Committee in Tokyo this month. He will meet various officials of the Japanese Government with policy responsibilities for Japanese Customs and other ministries involved in the entry of imports. Mr. Walker will also visit various Japanese Customs facilities.

The U.S.-Japanese Customs Liaison Committee, established in early 1982, was formed to facilitate trade and promote better relations through exchanges of information and discussions of mutual problems and concerns. In addition to import entry procedures, the Committee will take up a permanent assistance agreement between the services, and the establishment of working groups on passenger processing, cargo processing and enforcement.

Assistant Secretary Walker said: "We expect that through these meetings progress can be made toward reducing or eliminating unnecessary barriers to U.S. exports resulting from cumbersome and restrictive import entry procedures."

TREASURY NEWS

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HOLD FOR RELEASE
EXPECTED AT 9:30 A.M., EST
FRIDAY, APRIL 8, 1983

STATEMENT OF THE HONORABLE MARC E. LELAND
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, INVESTMENT
AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

I am pleased to appear before this Subcommittee to support the Administration's proposed legislation to extend the Export-Import Bank Act until September 30, 1988. The Administration strongly supports a simple extension of the Eximbank Charter, with no amendments to the other provisions of the Act. Eximbank has done a good job of facilitating U.S. exports by countering foreign financing subsidies and overcoming deficiencies in private capital markets. We see no need to amend the existing Eximbank Charter. First, the existing Act has worked well. Secondly, the Charter contains the flexibility which enables the Administration and Eximbank to develop different approaches toward negotiating improved export credit arrangements. Finally, the Charter allows the Administration sufficient latitude to adapt policies to changing needs.

Reviewing and renewing the Eximbank Charter requires that we all step back from our experiences of the last five years and objectively determine the kind of Eximbank we want in the future. Much analysis of Eximbank has been distorted by our experiences in recent years, which have been characterized by heavily subsidized export credits. During this period, the primary objective of Eximbank has been to neutralize the effects of foreign export credit subsidies. The environment for trade finance, however, has been rapidly and dramatically changing in the last six months. Export credit subsidies are fading in importance, whereas ongoing developing country indebtedness has raised questions about the availability of adequate export finance.

None of us wants an Eximbank Charter armed with the weapons and strategy to fight the last war but totally inadequate to meet new challenges. For this reason, I would first like to outline the Administration's export credit policy. Secondly,

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I want to summarize our assessment of the export credit environment we will face during the next five years. In particular, my testimony will focus on our international efforts to eliminate export credit subsidies, the impact of lower commercial interest rates on officially supported finance, and the consequences of developing country indebtedness for trade finance. Thirdly, I would like to explain how the existing Eximbank Charter best enables the United States to position itself for the future. Revision of the Charter, in particular strengthening the Bank's competitiveness mandate, could severely handicap these efforts. Finally, I would like to make some comments on proposals to (1) amend Section 1912 of the Export-Import Bank Amendments of 1978, and (2) establish a Competitive Tied Aid Fund.

Administration Export Credit Policy

The Economic Report of the President, transmitted to the Congress in February 1983, provides an excellent summary of the international economic foundations on which we have built U.S. export credit policy. I would like to highlight some of those conclusions today.

During the 1970's the world's market economies became more integrated with each other than ever before. Underlying the growth in world trade and investment was a progressive reduction of barriers to trade. In spite of its huge benefits, however, this liberalized trading system is now in serious danger. Within the United States, demands for protection against imports and for export subsidies have grown; a combination of structural changes, sectoral problems and short-run macroeconomic developments has led to a perception that we are becoming uncompetitive in world markets. It has further been argued that the position of U.S. business is steadily eroding in the international marketplace, primarily because of the support given to foreign businesses by their home governments.

The practices of foreign governments raise extremely difficult issues for U.S. trade policy. The United States has customarily sought to preserve and extend the benefits of free trade. To do this requires resisting protectionist pressures at home while continuing to work for the elimination of the more objectionable trade-distorting policies of all countries. Moreover, trade distorting policies such as export subsidies are equivalent to the multiple currency practices of the 1930's. They are precisely the same "beggar-thy-neighbor" competitive devaluation policies which contributed to the great international tensions of that time and which were only resolved by the Bretton Woods Agreement of 1945.

Export subsidies are a form of protectionism which the United States has pledged to avoid. Reintroduction of subsidies into the international trading system will only aggravate tensions arising from the global recession.

Trade-distorting measures, such as subsidizing exports, injure not only the competing countries, but the initiating country, even when they are a response to foreign trade-distorting practices. Obviously, export subsidies result in significant direct budgetary costs for the initiating country. In addition, the subsidy fails to improve the trade balance or generate economic growth even in the short run. Such subsidies benefit one industry at the expense of non-subsidized industries and other taxpayers. Moreover, at least part of an export subsidy is transferred abroad, as opposed to domestic subsidy programs.

If foreign governments subsidize exports on a large scale, world prices for U.S. products are depressed as a result. Large countersubsidies by the United States would depress prices still further. With floating exchange rates, an artificial increase in exports -- brought about by export subsidies -- increases demand for dollars, thus raising the exchange rate. This leads to a further loss of competitiveness in those sectors which are not promoted. Thus, departures from free trade are <u>not</u> called for, and if other countries do not play by the rules, we should target our responses and not try to launch large countersubsidy programs.

Intervention in international trade by the U.S. Government, even though costly to the U.S. economy in the short run, may be justified if it serves the strategic purpose of increasing the cost of interventionist policies by foreign governments. Thus, there is a potential role for carefully targeted measures -- explicitly temporary -- aimed at convincing other countries to reduce their trade distorting activities.

Consistent with the basic thrust of the President's Report, the Administration's export credit policy continues to be based on three precepts:

(1) We oppose export credit subsidies. Such subsidies transfer resources from domestic taxpayers to foreign importers, reduce the real gains from exporting, distort trade, and result in bloated government demands on credit markets.

(2) Export credit subsidies should be reduced and eventually eliminated through international agreement.

(3) In instances where such subsidies are applied, financing from the Export-Import Bank should be targeted to assist U.S. exporters to meet the competition where it is greatest.

Within this context, Eximbank has an important role to play in supporting U.S. exports against official foreign predatory financing, helping to overcome imperfections in capital markets, and maintaining pressure on other governments to negotiate reductions in their own export credit subsidies.

Export Credit Arrangement

We have made significant progress in our quest to eliminate export credit subsidies, an objective vigorously sought by both this and the previous Administrations. The U.S. Government has successfully negotiated improvements in the OECD Arrangement on Export Credits which have significantly raised the minimum interest rates offered by foreign export credit agencies over the past year and a half. For example, the minimum permissible rates for the most important credit recipients where most predatory financing has occurred were raised from 7.5 percent to 11.35 percent, an increase of 46 percent for those countries where most of the predatory financing has occurred. At the same time, commercial rates have declined as a result of our success in bringing down inflation. For a complete summary of these negotiations, I would like to refer the Subcommittee members to the September 16, 1982 report of the Department of the Treasury to the Congress entitled, "International Export Credit Negotiations (1981-1982)."

These two developments have dramatically changed the export credit picture in the past year. This recent convergence of officially supported interest rates and commercial interest rates has largely eliminated direct interest rate subsidies for most borrowers. Of the major trade financing currencies, only French franc interest rates are substantially higher than the current Arrangement rates, resulting in subsidies. Since a great deal of trade is financed in U.S. dollars (perhaps 40 percent or more), we have come a long way towards our goal of eliminating subsidies in areas covered by the Arrangement.

Given the present economic difficulties facing the European Economic Community, it will take a great willpower and a firm commitment to free trade to hold this position. At upcoming negotiations we will concentrate our efforts on achieving a more flexible interest rate adjustment system that responds to market interest rate movements. This will not only be a more accurate system, it will remove the need for painstaking semiannual negotiations on interest rate levels. In addition, we have proposed measures to reduce government involvement in credits to the relatively rich countries. There was a preliminary negotiating session on March 1-2, and the Participants will meet again on April 25-27.

Clearcut evidence of the success of our efforts is the recent Eximbank decision to revise the interest rates it charges

on its loans. The Board reduced interest rates to the lowest levels permitted under the International Arrangement, without jeopardizing its financial position whatsoever. Thus, a major goal of this Administration and previous Administrations has been achieved.

Developing Country Indebtedness

Since about the middle of last year, the international financial system has been confronted with serious problems which have arisen as a result of the size of the debt of several key countries, the turn in the world economic environment, and inadequacy of adjustment policies. In response, lenders began to retrench sharply, and the borrowing countries have since been finding it increasingly difficult to raise money to pay for essential imports. Last year, net new bank lending to non-OPEC LDCs dropped by roughly half, to about $20-25 billion for the year as a whole, and came to a virtual standstill for a time at midyear.

The only fast way for these countries to reduce their deficits significantly in the face of an abrupt cutback in financing is to cut imports drastically, either by sharply depressing their economies to reduce demand or by restricting imports directly. Both of these are damaging to the borrowing countries and painful to industrial economies like the United States -- because almost all of the reduction in LDC imports must come at the direct expense of exports from industrial countries. But as the situation has developed in recent months, there has been a danger that lenders might move so far in the direction of caution that they compound the adjustment and liquidity problems already faced by major borrowers, and even push other countries which are now in reasonably decent shape into financial problems as well.

In order to appreciate fully the potential impact on the U.S. economy of rapid cutbacks in LDC imports, it is useful to look at how important international trade has become to us. Trade was the fastest growing part of the world economy in the last decade -- but the volume of U.S. exports grew even faster in the last part of the 1970's, more than twice as fast as the volume of total world exports. By 1980, nearly 20 percent of total U.S. production of goods was being exported, up from 9 percent in 1970, although the proportion has fallen slightly since then. High-technology manufactured goods are a leading edge of the American economy, and, not surprisingly, net exports of these goods have grown in importance. The surplus in trade in these products rose from $7.6 billion in 1970 to $30 billion in 1980. Our trading relations with non-OPEC LDCs have expanded even more rapidly than our overall trade. Our exports to the LDCs, which accounted for about 25 percent of total U.S. exports in 1970, rose to

about 29 percent in 1980. In manufactured goods, which make up two-thirds of our exports, the share going to LDCs rose even more strongly -- from 29 percent to 39 percent. What these figures indicate is that the export sector of our economy is vulnerable to any sharp cutback in imports by non-OPEC developing countries.

An essential element in resolving debt problems is continued commercial bank lending to countries that are pursuing sound adjustment programs. In the last months of 1982 some banks, both in the United States and abroad, sought to limit or reduce outstanding loans to troubled borrowers. But an orderly resolution of the present situation requires not only the willingness by banks to restructure existing debts, but also to increase their net lending to developing countries, in conjunction with efforts by those countries to balance their economies, to support effective, nondisruptive adjustment.

The Administration is launching a major effort to respond to the increased indebtedness and balance of payments problems in many developing countries. The primary focus of this effort has been the International Monetary Fund, for which we are seeking an increase in resources. Commercial lenders are increasing their lending at a slower pace than previously, and there is an important role for government guarantees during this transition period. Consequently, the support of Eximbank will be an important element in the total U.S. Government effort to provide a "credit bridge" across which trade can flow until recovery begins.

Eximbank in the New Economic and Financial Environment

Much lower interest rates in all SDR currencies, coupled with much higher interest rate minima under the Arrangement than a year ago, present an opportunity for Eximbank to make increasing use of guarantees and insurance authority in the provision of competitive financing offers. Moreover, current trends in U.S. market rates and the expected financial status of many developing country borrowers may well enhance the shift of demand from credits to guarantees, since commercial lenders may require this additional inducement to increase trade credit to some countries.

Thus, the critical issues for trade finance are shifting in this new environment. Export credit subsidies will fade and perhaps disappear as key elements in export credit competition. Instead, the availability of export finance will take center stage in a world in which commercial export credits may become more difficult to obtain.

The existing Eximbank Charter will enable the United States to respond effectively to this rapidly evolving economic and financial environment. The primary legislative objective of the Bank is to aid in financing and to facilitate U.S. exports. The Bank will continue to support U.S. exports. On account of the success of Arrangement negotiations and falling commercial rates, an increasing share of Eximbank support over the next five years will take the form of guarantees and insurance. Most importantly, the Charter ensures that Eximbank's excellent guarantee and insurance programs are poised to do their part in providing a "credit bridge" to a number of developing countries. No amendment to the Charter is necessary to implement our basic policy to place increased emphasis on guarantees and insurance.

The current Charter enumerates a number of objectives, goals, and policies for Eximbank. In terms of Eximbank's actual operations, the Administration believes that the following have been and should continue to be the primary operational policies of the Bank:

-- to offer rates and terms competitive with foreign rates and terms;

-- to seek to minimize competition in government-supported export credits;

-- to supplement and encourage, and not compete with, private capital;

-- to offer rates taking into consideration the average cost of money to the Bank as well as the need to be competitive;

-- to offer loans for specific purposes with a reasonable assurance of repayment; and

-- to deny credit applications for nonfinancial noncommercial considerations only if the President determines that such action would be in the national interest.

Eximbank is competitive. Eximbank offers interest rates for direct credits fully competitive with foreign officially supported interest rates and even offers foreign currency guarantees to replicate the low market interest rates associated with such currencies as the Japanese yen and German deutsche mark. In addition, Eximbank's guarantee and insurance programs are ready to respond effectively in the new competitive arena for trade finance, namely the increased importance of credit availability in keeping exports flowing.

The Bank will have ample budget authority to meet its objectives. For FY 1984, the Administration is requesting $3.8 billion in direct credits and $10.0 billion in guarantees and insurance. These requests reflect the Administration's view that credit availability rather than subsidized financing will emerge as the key trade credit issue. If subsidized foreign export credits again become a major problem, the Administration has pledged to seek up to an additional $2.7 billion in direct credit authority. In short, we are poised to use Eximbank as leverage against foreign export credit subsidies; no additional legislative mandate is required.

The genesis of recent proposals to strengthen further the competitiveness mandate was the Eximbank decision in July, 1981, to raise interest rates above Arrangement rates and to charge an application fee in order to offset its deteriorating financial position. The new rates were 1.5-2.0 percentage points above Arrangement rates, but still as much as 5.0 percentage points below Eximbank's own cost of money, and as much as 10 percentage points below commercial rates. A few cases were lost because of financing. But the new rates helped protect Eximbank's accounts from a hemorrhage of its capital and reserves. The Bank did suffer losses, but those losses were contained within reasonable limits.

The Administration believes that efforts to strengthen the competitiveness mandate are unnecessary. In formulating Eximbank policy, we recognize that it is very important for Eximbank to be competitive. Eximbank already provides financing on terms and conditions which enable U.S. suppliers to compete for export sales. Revising the present mandate could imply that the Bank must exactly match foreign subsidies (including foreign aid) in all cases. This would be potentially costly and undermine the Administration's flexibility. First, it would make it more difficult for the Administration to limit the cost of export subsidies during periods of inflation, thereby sheltering exports relative to other sectors of the economy. Secondly, it would permanently lock Eximbank into providing subsidized financing. U.S. Government export credit subsidies are costly and are only justified if they are carefully targeted, explicitly temporary, and aimed at the strategic purpose of convincing other countries to reduce trade distortions. Finally, it would undermine our flexibility to develop different approaches toward negotiating improvements in export credit arrangements.

The other legislated policies of Eximbank allow plenty of latitude for the Bank and the Administration to deal with the emerging economic and financial environment. We can not afford to lose sight of the Bank's cost of funds in setting interest rates, particularly in the context of our efforts to control the

Federal deficit. Eximbank's response to the credit availability problem is fully in line with the requirement to supplement, not compete with, private capital markets. Balancing this, the legislative requirement that there is a "reasonable assurance of repayment" for each transaction ensures that the Bank does not assume overwhelming commercial and political risks. Our ongoing efforts to improve the Export Credit Arrangement and the increased Eximbank use of guarantees and insurance are consistent with the mandate to minimize export credit subsidies. In our view, none of these objectives should be de-emphasized in the course of charter renewal. They all represent statements of important policy goals which, taken as a group, allow us to respond to the financial environment we expect.

Section 1912, Export-Import Bank Act Amendments of 1978

One trade finance issue which has become particularly acute in the past year is the question of how the United States should respond to offers of subsidized foreign financing for imports into our market. This issue received substantial attention in connection with the sale of Canadian subway cars to New York's Metropolitan Transportation Authority.

The Administration pursued a number of remedies in the MTA case. Consultations under Article 12:1 of the Subsidies Code were held immediately. A precedent-setting countervailing duty finding was made by the Commerce Department and the Treasury conducted an investigation under Section 1912 of the Export-Import Bank Act Amendments of 1978.

The latter section empowers the Secretary of the Treasury, under certain conditions, to authorize matching financing from Eximbank for U.S. producers if "noncompetitive" financing by a foreign government is "likely to be a determining factor" in a sale in the United States. The law defines "noncompetitive" as any financing which exceeds limits prescribed by international understandings on export credits. Thus, the statute wisely requires policy judgments, first as to whether Eximbank financing could be offered, and then as to whether it should be offered.

Context and Goals. Section 1912 was designed, of course, (a) to help U.S. industry cope with subsidized competition, and (b) to backstop U.S. efforts to negotiate an end to subsidized trade finance. Unlike the countervailing duty law, Section 1912 does not deal with injurious import competition since it requires no injury test.

But Section 1912 adds a useful new weapon to the U.S. arsenal at a time when we are trying to persuade other major exporting nations not to subsidize trade finance. At this time,

OECD countries have pledged not to derogate from major provisions of the Arrangement. If the ban on derogations remains in force, there will be no need to invoke Section 1912. If such discipline falls apart, however, the current statute reinforces U.S. efforts to eliminate export credit subsidies by focusing on derogations in the U.S. market. The statute also conserves Eximbank resources for use when foreign subsidies are most objectionable. It applies directly to subsidies that are _prima facie_ violations of the Subsidies Code. Finally, Section 1912 complements our countervailing duty law, which targets a broader range of practices not necessarily violative of international agreements but possibly harmful to U.S. industry.

Should Section 1912 be Amended? This review of Section 1912's place in our trade strategy suggests that it serves our purposes well just as it is. The high visibility given Section 1912 proceedings by the requirements for (a) a direct approach to the subsidizing government, and (b) the involvement of the Secretary of the Treasury is in itself a significant contribution to the attainment of U.S. policy objectives. We believe that the use of matching Eximbank financing can, in the right circumstances, be a similarly useful option under the statute as now drafted.

Proposed amendments to Section 1912 fall into two broad categories: (1) proposals to make the provision of Eximbank financing to U.S. entities more automatic; and (2) proposals to create a special countervail procedure for credit subsidies.

We see a danger in amending Section 1912 to make the provision of Eximbank financing to U.S. entities more automatic. This danger is that the statute, instead of being a tool for enforcement of U.S. trade policy, could become an entitlement program for any U.S. purchaser who can point to an offer of subsidized foreign competition. Indeed, some of the amendments which have been suggested could have the effect of encouraging U.S. purchasers to seek foreign competition in order to trigger an offer of Eximbank funding. The paradoxical result could be to institutionalize, rather than discourage, subsidized credit competition. We strongly believe that the statute must continue to permit discretion in its application if it is to fulfill its purpose of helping to keep U.S. industry competitive while discouraging wasteful credit subsidies. In this context, the Secretary of the Treasury has agreed to consult with other interested agencies before a final determination on Section 1912 is made.

With regard to your proposed amendment to amend Section 1912, Mr. Chairman, we can appreciate your intent of shifting the burden of responding to foreign subsidized export finance from the Eximbank budget (and ultimately the U.S. taxpayer) to the foreign subsidizer

or the U.S. interest receiving the benefit of the subsidy. This is commendable from a budget perspective.

However, the proposed amendment would bypass existing U.S. laws designed to deal with foreign export subsidies in a more comprehensive fashion. Our countervailing duty laws, administered by the Department of Commerce, are specifically designed to provide for the assessment of import duties against subsidized imports which injure or threaten to injure U.S. industries. In the recent subway car case, this Administration made it clear that it will enforce these laws to offset fully any subsidies on imports which are injuring U.S. businesses or workers. This case establishes a clear precedent that warns anyone comtemplating such credit subsidies that they face potential countervailing duties.

Under current laws, the subsidy determination in an export credit case depends on the amount of benefit received by the exporting firm and could be substantially more than just the difference between the interest rate granted and the cost of money to governments. Thus, a finding under the current countervailing duty laws could be more onerous than an assessment levied under the proposed new law. It is not clear whether action taken under the proposed legislation would preclude subsequent supplementary action by the Commerce Department.

We do not think it is necessary to adopt parallel legislation to the current countervailing duty laws solely for export credit subsidies. The current laws are sufficient -- and, indeed, preferable to separate, conflicting laws administered by two different Departments.

<u>Mixed Credits</u>

Mr. Chairman, this Subcommittee is considering the advisability of creating a "Competitive Tied Aid Fund" on which Eximbank would draw to match foreign mixed credits. The purpose would be to ensure that U.S. exporters remain competitive with mixed credit financing, while bringing pressure on our competitors abroad to stop offering this form of financing.

The Administration opposes initiation by the United States (or others) of mixed credits with a low degree of concessionality. The use of mixed credits in export competition is expensive and wasteful. We cannot expect to eliminate the unfair initiation of mixed credits by engaging in this practice ourselves. Further, current resources do not allow either Eximbank or AID to engage in an extensive program of mixed credits.

Our concern with mixed credits centers on those credits with low concessionality. Low concessionality mixed credits are

an attempt to circumvent the Arrangement ground rules, while conferring limited aid benefit to developing nations. Highly concessional mixed credits are a different matter, since they are the functional equivalent of tied foreign aid.

Discipline on mixed credits is already tight in the Arrangement on Export Credits, and we want to make it even tighter. Currently, mixed credits with a grant element of less than 20 percent are prohibited. Prior notification -- and thus the threat of matching -- is required for mixed credits with a grant element less than 25 percent. Anything over 25 percent is foreign aid. Under this system, it is already expensive to promote exports with mixed credits.

To further tighten the discipline, the Treasury has proposed in the OECD that countries participating in the Arrangement agree not to offer mixed credit financing with a grant element of less than twenty-five percent. In other words, this forces those who wish to give mixed credits to give it as foreign aid, if they give it at all. Moreover, we have proposed that credits with a grant element of 25 to 30 percent would be subject to prior notification, giving competitors an opportunity to match, if they chose. Mixed credits with a grant element between 30 and 50 percent would be subject to prompt notification.

We believe our proposal would discourage the use of this wasteful practice and avoid any need for the United States to consider mixed credits.

Conclusion

In light of the rapidly evolving economic and financial environment, the Administration and Eximbank require the latitude to respond to changing needs. The current provisions of the Export-Import Bank Act provide the needed flexibility.

The Charter has worked well, even during a difficult period when heavily subsidized export credits were the central trade finance issue. With the virtual elimination of export credit subsidies, we see no need to strengthen further the Bank's competitiveness mandate, particularly since competitiveness has been a primary goal of the Bank's operations over the last five years.

The Administration urges Congress to extend the Act for five years, but not to amend the existing provisions.

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON April 8, 1983

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $7,750 million of 364-day Treasury bills to be dated April 21, 1983, and to mature April 19, 1984 (CUSIP No. 912794 EF 7). This issue will provide about $2,480 million new cash for the Treasury, as the maturing 52-week bill was originally issued in the amount of $5,269 million. The additional issues of 45-day and 10-day cash management bills totaling $12,022 million issued on March 7, 1983, and April 11, 1983, and maturing April 21, 1983, will be redeemed at maturity.

The bills will be issued for cash and in exchange for Treasury bills maturing April 21, 1983. In addition to the maturing 52-week and cash management bills, there are $11,638 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 $1,549 million, and Federal Reserve Banks for their own account hold $2,542 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 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 $450 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 Standard time, Thursday, April 14, 1983. 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.

R-3020

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 April 21, 1983, in cash or other immediately-available funds or in Treasury bills maturing April 21, 1983. 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 IMMEDIATE RELEASE April 11, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,205 million of 13-week bills and for $6,202 million of 26-week bills, both to be issued on April 14, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 14, 1983			:	26-week bills maturing October 13, 1983		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	97.947	8.122%	8.43%	:	95.841	8.227%	8.73%
Low	97.933	8.177%	8.49%	:	95.822	8.264%	8.77%
Average	97.936	8.165%	8.48%	:	95.830	8.248% 2/	8.75%

Tenders at the low price for the 13-week bills were allotted 82%.
Tenders at the low price for the 26-week bills were allotted 63%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 142,505	$ 49,955	:	$ 142,645	$ 55,045
New York	12,172,390	4,635,470	:	12,510,570	4,926,060
Philadelphia	33,440	33,440	:	23,545	23,545
Cleveland	39,550	39,050	:	33,280	33,280
Richmond	45,300	45,300	:	67,945	43,945
Atlanta	53,595	50,115	:	38,315	38,315
Chicago	1,085,460	346,260	:	1,029,025	331,025
St. Louis	47,770	34,970	:	31,910	21,910
Minneapolis	10,755	9,755	:	24,180	12,170
Kansas City	55,135	55,135	:	52,310	51,460
Dallas	34,050	24,050	:	27,630	22,630
San Francisco	1,176,010	543,210	:	1,056,885	348,885
Treasury	338,730	338,730	:	294,080	294,080
TOTALS	$15,234,690	$6,205,440	:	$15,332,320	$6,202,350
Type					
Competitive	$12,871,390	$3,842,140	:	$12,692,940	$3,562,970
Noncompetitive	1,099,365	1,099,365	:	913,480	913,480
Subtotal, Public	$13,970,755	4,941,505	:	$13,606,420	$4,476,450
Federal Reserve	1,202,335	1,202,335	:	1,200,000	1,200,000
Foreign Official Institutions	61,600	61,600	:	525,900	525,900
TOTALS	$15,234,690	$6,205,440	:	$15,332,320	$6,202,350

1/ Equivalent coupon-issue yield.
2/ The four-week average for calculating the maximum interest rate payable on money market certificates is 8.548%.

R-3021

FOR IMMEDIATE RELEASE APRIL 11, 1983

The Treasury announced today that the 1-1/2 year Treasury yield curve rate for the five business days ending April 11, 1983, averaged 9.40 % rounded to the nearest five basis points. Ceiling rates based on this rate will be in effect from Tuesday, April 12, 1983 through Monday, April 25, 1983.

Detailed rules as to the use of this rate in establishing the ceiling rates for small saver certificates are set forth in Title 12 of the Code of Federal Regulations, section 1204.106.

For informational purposes only, the Treasury's 2-1/2 year rate for the five business days ending April 11, 1983 was 9.75 %.

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 [signature]
for Francis X. Cavanaugh, Director
Office of Government Finance
& Market Analysis

4/11

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 9:00 a.m.
April 12, 1983

STATEMENT OF
THE HONORABLE BERYL W. SPRINKEL
UNDER SECRETARY FOR MONETARY AFFAIRS
U.S. TREASURY DEPARTMENT
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Mr. Chairman and members of this distinguished Committee, I appreciate this opportunity to review with you S. 730, the "Credit Deregulation and Availability Act of 1983", a bill to remove state and Federal usury ceilings on credit transactions. This legislation is important to consumers and important to the efficient and equitable operation of our financial markets.

S. 730 would broadly preempt state and Federal usury ceilings on business, agriculture and consumer loans but would include a provision which would retain state consumer protection laws and lender licensing requirements. Such laws and regulations insure that consumers receive credit terms that are fair and fully disclosed.

In his April 6 testimony before this Committee on the current economic and competitive conditions in our financial markets, the Secretary of the Treasury testified in favor of preempting usury ceilings on all types of credit. He stated that the Administration believes that usury ceilings only distort financial markets and credit flows and do not reduce the cost of credit to the economy.

R-3022

Thus the Administration strongly supports the fundamental principles underlying S. 730. It favors the broad approach of this bill which would further the deregulation of the cost of credit begun by the Depository Institutions Deregulation and Monetary Control Act of 1980. In addition, the Administration strongly supports the provision in S. 730 which would give states the ability to override any usury ceiling preemption for a three year period after the effective date of the Act and which would continue to exempt from coverage state usury laws enacted under the similar override provision of the Deregulation Act of 1980.

IMPACT OF USURY CEILINGS

I would like to take this opportunity to address in a general way the adverse impact usury ceilings have on our economy.

Although usury laws are intended to protect small and low-income borrowers from unscrupulous lenders who might otherwise charge excessive interest rates, they have unintended and adverse effects on borrowers, financial institutions, and the public at large, particularly during periods of inflation and contracted credit availability. When market interest rates are above usury ceilings, many borrowers are unable to obtain loans from commercial banks or other financial institutions. Those first denied credit are generally the high-risk and low-income borrowers. When lenders are unable to charge rates sufficient to yield a reasonable rate of return, they generally stop or substantially curtail lending to such marginal borrowers. Should a lender's cost of funds exceed the prevailing usury ceilings, all consumer lending may be expected to cease. Borrowers are then forced to rely on unprincipled lenders for loans made above usury rate limits or seek nonmarket sources of credit such as family or friends. Alternatively, where state ceilings are too restrictive, borrowers may resort to out-of-state sources for necessary credit.

Equally important, usury ceilings and other arbitrary restrictions that limit credit availability tend to affect employment adversely and dampen economic growth. For example, in states with constitutionally mandated interest rate limits the economy almost always grows more slowly than the national economy when market interest rates rise above the state usury ceilings. In high interest rate periods many automobile dealers, appliance stores and other businesses that rely on consumer credit go out of business or have to move across the state's borders. Clearly, more than just inefficiency and inconvenience result from such locational patterns.

PAST DEREGULATION EFFORTS

Usury ceilings are also inconsistent with Congressional efforts to restructure our financial institutions which began with the passage of the Depository Institutions Deregulation and Monetary Control Act of 1980. This Act, along with providing for the phaseout of Federally administered interest rate ceilings on deposits, expanded the asset powers of thrift institutions to include consumer lending. For example, one of the reasons Congress authorized consumer lending activities at savings and loan associations was to help alleviate the severe profit volatility problems of these institutions due to the maturity imbalance between their assets and liabilities. It was believed that the shorter maturity of consumer loans (compared with the maturity of mortgage loans) would provide more asset yield flexibility at these institutions and thus reduce profit squeezes during high interest rate periods. The Garn-St Germain Depository Institutions Act of 1982 built upon this concept when it expanded the consumer lending authority of savings and loan associations and gave them limited commercial lending powers. However, these institutions are discouraged from taking advantage of their newly acquired powers when usury ceilings require them to make loans at interest rates that are below the cost of their deposits. With the eventual elimination of all deposit interest rate limitations, changes in the average cost of funds to all depository institutions will reflect more closely changes in market rates of interest. If banks and other financial institutions are to maintain their longterm viability, they must be able to adjust their interest charges and fees in response to changes in their cost of funds and operating expenses. The ability of depository institutions to pay market rates to depositors is necessarily dependent upon similar flexibility in their authority to charge such rates on their loans.

Finally, state usury ceilings are quickly becoming ineffective in a financial system which is increasingly national in scope. Individuals in any state may use bank credit cards issued by banks in another state and therefore be subject to the less restrictive usury ceilings. Similarly, lenders in a state subject to low usury limits may purchase out-of-state loans or may sell their loanable funds in unregulated national markets, such as the interbank Federal funds market. These examples indicate that some individuals and institutions are able to circumvent or adapt to usury ceilings, while others (usually the poor or less sophisticated borrowers) suffer from their impact. Since changes in the financial markets have made state control of the cost of credit ineffective, the Administration supports a Federal preemption of all usury ceilings as long as the preemption includes a provision which gives states an opportunity to reinstate the usury ceiling anytime within the next three years.

CONSUMER PROTECTION

Usury laws historically have been designed to protect borrowers from unfair lending practices. The Administration feels, however, that current state and Federal consumer protection laws satisfy this important social goal more effectively and are less disruptive to the financial markets than usury ceilings. This Committee will hear evidence of unscrupulous lending practices in states which have enacted broad credit deregulation laws. Increased consumer sophistication and competition among financial institutions in the consumer loan market provide sufficient protection to consumers against unfair interest rates in most parts of the country. However, in those areas of the country where credit markets are not yet reasonably competitive, a need remains for specific safeguards to protect the unwary borrower.

Therefore, legislation preempting state usury ceilings should include specific provisions retaining the consumer safeguards developed by states. The area of proper consumer safeguards involves very technical and complex issues and we would hope that Congress would consult with experts on this subject in the Federal regulatory agencies.

A FEDERAL USURY CEILING

The Administration supports the proposal in S. 730 to repeal the statutory provision maintaining Federal rate ceilings on Federal credit union loans. Since Federal credit unions must pay market rates to attract deposits, they should not be limited as to the rates they can charge on loans.

Current Federal law states that Federally insured depository institutions when setting loan rates may charge the greater of the rate of interest allowed by a state where the institutions are located or a rate not more than one percent in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such bank is located. While this alternative Federal ceiling is an advantage where state usury ceilings require lower rates, in general the Administration believes that any Federal ceiling is as inappropriate as any state ceiling.

RECOMMENDATION

In the current environment of low inflation and declining interest rates, fixed-rate usury laws are usually of little significance. However, in high inflation/high interest rate periods they tend to hurt borrowers by restricting the availability of credit or by encouraging abuses by unregulated lenders. In addition, they are inconsistent in any environment with recent legislation providing for the phase out of interest rate ceilings on deposits which will result in savers earning market rates on their deposits. If institutions are to pay market rates to savers, they must be able to charge market rates to borrowers or they will not be able to remain viable.

In conclusion, since the Administration supports the removal of all usury ceilings, we are supportive of S. 730, including those provisions that contain the three year state override and the retention of state laws concerning consumer safeguards.

* * * * * * * *

Mr. Chairman, that concludes my testimony. I will be pleased to answer any questions the Committee may have.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.

April 12, 1983

TREASURY ANNOUNCES WEEKLY BILL OFFERING AND CHANGE IN COMPETITIVE BIDDING PROCEDURE

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,400 million, to be issued April 21, 1983. This offering will provide $750 million of new cash for the Treasury, as the regular 13-week and 26-week bill maturities were issued in the amount of $11,638 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $6,200 million, representing an additional amount of bills dated January 20, 1983, and to mature July 21, 1983 (CUSIP No. 912794 DJ 0), currently outstanding in the amount of $5,988 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,200 million, to be dated April 21, 1983, and to mature October 20, 1983 (CUSIP No. 912794 DU 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing April 21, 1983. In addition to the maturing 13-week and 26-week bills, there are $5,269 million of maturing 52-week bills and $12,022 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 $1,561 million, and Federal Reserve Banks for their own account hold $2,542 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three regular issues of maturing bills.

As previously announced, these will be the first regular weekly auctions in which competitive bidding will be required to be on a bank discount rate basis rather than on a price basis. Competitive bidders must state the percentage rate (on a bank discount basis) that they will accept to two decimal places, for example, 7.15%.

Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates 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 $1,111 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 18, 1983. 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 state the par amount of bills bid for, which must be a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. 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 yield 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 yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

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 21, 1983, in cash or other immediately-available funds or in Treasury bills maturing April 21, 1983. 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

REMARKS BY THE HONORABLE JOHN M. WALKER, JR.
ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)
DEPARTMENT OF THE TREASURY
BEFORE THE AMERICAN CHAMBER OF COMMERCE
TOKYO, JAPAN
APRIL 12, 1983

Good morning, ladies and gentlemen. It is a pleasure to be here today representing the U.S. Department of the Treasury. As you know, I am here this week to lead the U.S. Customs Service delegation in its continuing consultations with its Japanese counterparts in the Third U.S.-Japan Customs Liaison Committee Meeting.

In January 1982, the United States and Japan established the U.S.-Japan Customs Liaison Committee (JLC) during a visit to Japan by the Commissioner of Customs. The purpose of the Committee is to foster a wide exchange of information, to promote better relations between the United States and the Japanese Customs Services, and to reduce or eliminate restrictions to trade by discussing mutual problems and concerns.

The Second U.S.-Japan Customs Liaison Committee Meeting, held in Washington in April of 1982, was a most successful and productive one. The positive results included a presentation of how U.S. Customs had modernized and improved its operational procedures, and Japan's announcement of five changes in Japanese Customs procedures designed to facilitate trade. The other beneficial results were an expanded exchange of information on enforcement matters, and meaningful discussions on the Harmonized System, the Customs Cooperation Council, and the Kyoto Convention. We hope the Third JLC Meeting will be equally productive.

I would indeed be remiss if I did not recognize the vital role that the American Chamber of Commerce is performing in trying to facilitate trade between the United States and Japan. The Chamber has done an excellent job in bringing to the forefront the issue of fair access to Japanese markets as the key to the successful resolution of U.S.-Japan trade problems. Your role in educating U.S. businesses on methods to improve their marketing in Japan, and in reminding Japanese businesses of the importance of a fair access to Japanese

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markets is a productive and vital one. The Administration is in total agreement with your contention that more U.S. products would be competitive in Japan if non-tariff trade barriers were removed. We encourage you to be steadfast in your pursuit of this issue.

We believe your efforts are beginning to pay dividends, but there is still much to do. Doing business in Japan, more than in other industrial nations, requires thorough planning and market research. The American Chamber of Commerce has contributed significantly in both of these areas in supporting American business. Although we acknowledge that Japan has taken steps to remove some of the barriers to trade, such as reducing tariffs and quotas, the U.S. government wants Japan to continue to simplify procedures for importing goods into Japan. We must continue to press for a more open attitude toward imports among Japanese businesses, the bureaucracy, and consumers.

The recent steps announced March 26, 1983, by the Japanese government to seek legislative changes in Japanese laws affecting trade is an important opportunity. We must, however, continue to work together to see that the legislative proposals are far-reaching and effective in reducing and eliminating trade barriers and that the legislation is passed expeditiously. We must help the Japanese Diet understand that reasonable and fair access to Japanese markets is essential to the U.S. If the perception persists, particularly by Congress, that Japanese markets are less open and more restrictive than ours, then tension over trade between our countries will continue.

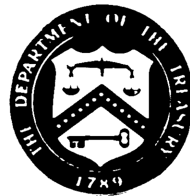
Besides pushing for the expeditious changes in the numerous pre-entry laws inhibiting trade, we believe that enforcement of these laws by Japanese Customs, instead of by the Ministries administering the laws, would further help to facilitate the entry of U.S. goods. In contrast with Japanese procedures, approximately 95% of all merchandise imported into the United States is released to importers within a few hours, after a minimal number of documents are presented to Customs. In some instances, merchandise is conditionally released to importers although final determination is dependent on laboratory analysis by another agency. This system is possible because of our system of bonds and other regulatory controls over importers. The guiding principle of U.S. Customs procedures is to give importers the use of their merchandise as soon as possible. We took the step of transferring enforcement authority to Customs for the laws of other agencies many years ago, and no threat to the U.S. public has resulted. My primary mission

during this visit will be visiting with various Ministries, to convince my Japanese counterparts that trade tensions will be reduced if the responsibility of the enforcement of other Ministries' laws is transferred over to the Japanese Customs Service, and that the public will not be harmed. You can help us by continuing to deliver that message to Japanese businesses and consumers after we leave. I urge you to make them understand that we are serious about this request.

There is a definite and growing sentiment within the U.S., particularly felt in Congress, that the U.S. Government should place the same restrictions on imports from other countries that these countries place on imports from the U.S. Although this Administration is firmly committed to the philosophy of free trade, we will, however, continue to insist that -- and indeed, we will not rest until -- American companies have the same opportunities to compete in Japan as Japanese companies have in the U.S.

In closing, I would like to thank you for affording me the opportunity to share with you some of the goals of this Administration. Again, I salute your efforts in support of our objectives and urge you to persevere in your pursuit of free and open trade between Japan and the United States.

TREASURY NEWS



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

STATEMENT OF THE HONORABLE
DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES
APRIL 13, 1983

Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you today to discuss the Administration's funding request for the multilateral development banks (MDBs) and to ask for your prompt and favorable consideration of this request. I understand that the Appropriations Committee will be considering separately legislation providing for U.S. participation in an increase in IMF resources. I also urge your prompt approval of this vital legislation.

The present strains on the international financial and economic system are without precedent in the postwar era and pose a very serious threat to the efforts being made, both domestically and internationally, to restore growth and vitality to the world economy. Both the IMF and the multilateral development banks can play a crucial role in support of the international economic system: the IMF through its expanded and strengthened financing facilities to help members through their near-term problems and the MDBs through their investment programs to support sound long-term growth in developing countries.

The distinct but complementary operations of these institutions help to protect U.S. interests worldwide. The uncertain world economic and political environment makes it all the more important for the United States to assure that the IMF and the MDBs can respond effectively to their member countries. In the economic arena, as in the international political and military spheres, the United States cannot maintain an effective leadership role and assure our national security unless we are willing to provide the necessary resources to meet the challenges that lie before us. Our contributions to the MDBs reflect the commitment of the United States to work with other nations to improve the quality of life in developing countries while encouraging adoption of sound economic policies. The MDBs reflect a cost-effective approach to economic development and our budget request this year is consistent with this approach.

THE APPROPRIATION REQUEST

For the multilateral development banks the Administration's FY 1984 request calls for approximately $1.625 billion in budget authority and $2.890 billion in callable capital under program limitations. I am submitting for the record a detailed description of this request. I again want to emphasize my conviction that it is absolutely essential for the United States to continue its strong and active support for these institutions.

At the same time, I am mindful of the need for budget restraint. The three replenishment agreements negotiated by this Administration, reflected in this request, provide for substantial reductions in budgetary requirements but still preserve -- indeed, strengthen -- the contribution of these programs to our overall foreign policy objectives in Africa, Asia and the Western Hemisphere. These three agreements call for appropriations of $323.7 million annually, while the preceding agreements for the same institutions required $399.9 million -- a reduction of 19.1 percent.

The MDBs are among the most successful examples of international cooperation. More importantly, they are directly supportive of vital U.S. long-term foreign policy interests. Now is not the time to undermine our influence in these institutions or to jeopardize the beneficial role they can play in global economic development. The stakes are too high.

When we look at the list of the largest MDB borrowers -- Mexico, Brazil, Argentina, Indonesia, Korea, Pakistan, Thailand, the Philippines, Turkey, and Egypt -- we see that the MDBs are lending and providing both technical assistance and policy guidance to countries of great importance to us. The Inter-American Development Bank (IDB) is especially important for our relations with Latin America and the Caribbean. The MDBs can make a valuable contribution to our national security and other foreign policy objectives in these countries. Our bilateral program is simply not enough.

Bilateral aid is particularly effective in responding rapidly to the urgent needs of specific countries, but multilateral assistance, which serves long-term U.S. interests, can be very cost-effective, and can promote a stable international economic environment. The fact is that by providing assistance through the MDBs we are in a much better position to encourage economic policy reforms in developing countries than we are capable of doing in the bilateral context.

While it is true that the MDBs provide assistance to some countries which we would not assist bilaterally or with which we do not maintain cordial relations, the amounts involved are relatively small compared to the assistance provi ed those countries of political and economic importance

to us. Even countries we would not assist bilaterally borrow from the MDBs according to the same economic and financial standards as other borrowers. Finally, it should be noted that the MDBs are not providing assistance to Vietnam, Cuba, or Poland.

Conversely, in FY 1982 the MDBs provided about $5 billion in assistance to the 34 countries which received funds from our Economic Support Fund (excluding Spain and Israel) -- about the same amount as we provided bilaterally. Thus, multilateral assistance is, on balance, an effective complement to our bilateral assistance programs, offering additional financial assistance (leveraged with other nations' contributions) which we realistically could not provide bilaterally, and more effective guidance to improve economic policies than we can provide on a bilateral basis.

Last year, MDB loan commitments totalled $16.8 billion. This made the MDBs by far the largest official source of external capital for the developing world. With such a large volume of loans the MDBs can foster economic growth and stability in developing countries and thereby enhance our own security and well-being. The MDBs have the access to government leaders to encourage sound and open economic policies which can spur the expansion of trade between the developing and the industrialized nations.

The MDBs must continue to insist on sound economic criteria for their loans such as adequate financial and economic rates of return. They also must encourage developing countries to adopt and implement development policies on rational economic grounds rather than political ones. Their policy advice and preparation of development projects based upon sound economic criteria can continue to be an important source of strength for expanding the international economy -- one which promotes the open, competitive, market-oriented economic system.

One of the most important roles played by the MDBs in the development process is the mobilization of additional resources for development projects. The Administration has been particularly keen to enhance not only the level of private sector participation but also the quality of individual investments. This has led us to seek expansion of MDB co-financing with private investors, partly because they can provide an offset for scarce public resources, but, of equal importance, they inject a greater degree of market discipline into the development process. For the private investor, cofinancing with the MDB provides assurance of a sound investment project. Overall, MDB cofinancing has helped to maintain private flows from increasingly tight capital markets.

During the fiscal year ending June 30, 1982, the World Bank obtained over $7 billion in co-financing from all sources; of this figure, over $3 billion was from commercial banks. The IFC syndicated with commercial banks $188 million of its $612 million lending program. Total World Bank co-financing and the amount obtained from private sources in 1982 were approximately 80 percent greater than the comparable figures for the previous year, thus continuing the substantial annual growth of recent years.

Progress in the co-financing arena was also noted in the other MDBs. In the ADB, the cumulative total of all private sector co-financing was only $38 million through December 31, 1980; in calendar year 1981 alone, $87 million of new private sector co-financings were achieved, and in 1982 the amount jumped to $261 million. In calendar year 1982, the IDB raised $99 million for Latin America's development through complementary loans secured in the world's private capital markets. As of December 31, 1982, the total of complementary loans amounted to $612 million. All of the MDBs are working to expand their co-financing programs further, and are actively investigating the development of new financial instruments that would strengthen the private sector role in financial flows to the LDCs.

Direct U.S. Economic Benefits

As the Administration's chief fiscal officer, I am committed to budget restraint. At the same time, I believe the United States must maintain a reasonable program of foreign assistance. The cost-effectiveness of the multilateral development banks reconciles these needs.

First, other members contribute 3 dollars for every 1 dollar contributed by the United States. Second, supported by callable capital, the MDBs finance the bulk of their lending programs through borrowings in the capital markets. The result is that it is possible for the MDBs to provide significant resources at a relatively small direct cost to U.S. taxpayers. For every dollar the United States pays into the World Bank, for example, the Bank lends over $60. Our development assistance dollar gets maximum leverage when channeled through the MDBs.

In addition, U.S. paid-in subscriptions and contributions to the soft windows can result in significant expenditures on U.S. goods and services. Procurement of American goods and services for projects assisted by the MDBs have been running at approximately $1.2 billion per year, benefiting virtually all regions of the United States. For purposes of comparison, U.S. budgetary outlays for U.S. paid-in subscriptions and contributions to the soft windows are running at approximately the same rate.

International Development Association (IDA) Supplemental

In addition to the fiscal year 1984 MDB request, the Administration is requesting a $245 million fiscal year 1983 supplemental for IDA, the soft loan affiliate of the World Bank. This $245 million together with the fiscal year 1984 request of $1,095 million will complete the U.S. contribution to IDA VI.

As you know this Administration inherited a very difficult situation with regard to IDA, and I would like today to restate and stress how important we believe it is for the United States to deliver on this commitment. The previous Administration negotiated a $12 billion funding arrangement under which the U.S. was expected to provide $3.24 billion over three years ending in fiscal year 1983. However, as you well know, U.S. contributions have been far short of this expectation. We provided only $500 million in FY 1981 and $700 million a year in FY 1982 and $700 million so far in FY 1983. The Administration is firmly committed to completing the U.S. contribution to IDA-VI within the FY 1981-1984 period. Other donors have agreed to release their second and third installments to IDA VI, and to provide an additional $2 billion to sustain the lending in fiscal year 1984. Even with these measures, however, FY 1981-1983 IDA commitments to Sub-Suharan Africa are now projected to be about 20 percent lower than was envisioned at the time IDA VI was negotiated. Full funding of IDA VI is therefore essential both to maintain U.S. credibility and to avoid further disruption in IDA lending.

We know there is room for improvement in IDA operations and the Administration is moving vigorously to make those improvements. We need to improve the quality of projects and to have a more forceful policy dialogue with recipient countries. We need a much better allocation of resources towards the poorer and less creditworthy countries. We need lending terms which more closely correspond to the present day cost of capital. However, if the United States is to continue to exercise the leadership needed to bring about these necessary changes, we must be prepared to honor our commitments by providing the necessary financial support.

IDA is a significant element of cooperation with our allies, and the largest single source of concessional assistance. IDA lends to many countries such as Kenya, Sri Lanka, Pakistan, and Sudan, which are of strategic and economic importance to the United States.

We also know that IDA is extremely important to other nations. Our participation in IDA contributes significantly to the substance as well as the atmosphere of our ties with developing countries. For example, representatives of the African diplomatic corps in Washington recently emphasized

to me the importance their governments place on U.S. completion of IDA VI in FY 1984. U.S. participation in IDA also reflects a successful partnership with Europe, Japan, Canada and other donors. But strains are showing in this partnership. The governments of the European Communities have continually urged us to complete our IDA VI contribution expeditiously. Continued failure to meet our negotiated share of IDA VI seriously jeopardizes our relations with the developing world and weakens the confidence of our allies in U.S. ability to play a cooperative role across a broad range of international activities. I strongly urge that maximum effort be made to appropriate the supplemental request and fulfill our commitment to IDA VI in the FY 1984 budget. This will strengthen our hand in achieving the policy lending reforms you and I are seeking in the IDA VII negotiations and in achieving consensus on a realistic level of funding for the next replenishment. This Administration will continue to work with the Congress to assure that the next IDA replenishment reflects reforms and improvements encouraged by the Congress. But we must, in turn, be able to demonstrate Congressional willingness to support the U.S. position once agreement is reached.

Let me turn now to the Regional Development Banks. Throughout recent replenishment negotiations, we have carefully considered the views expressed by the Congress and have tried to achieve the major recommendations of our Assessment. The new replenishments represent important further steps toward implementing those recommendations.

Specifically, the new replenishments are consistent with the Assessment's recommendations to reduce overall contributions to the soft loan windows and the proportion of capital subscriptions paid-in while still providing assistance to the poorest developing countries. For example, since Latin America has the highest per capita GNP of the developing regions of the world, the replenishment for the IDB's Fund for Special Operations will be about $1 billion less than the previous replenishment. By contrast, the replenishments for the Asian Development Fund and African Development Fund will be about $1 billion and $200 million larger, respectively.

We are also urging that the MDBs use their resources more effectively, so that the poorest countries receive the benefits of these programs. We have been working with the Banks to ensure: (1) greater selectivity and policy conditionality within projects and sector programs; (2) more emphasis on catalyzing private sector flows; and (3) firm implementation of graduation from hard loan windows and maturation from soft windows. Effective use of these policies should permit lower funding levels and at the same time ensure that scarce resources are concentrated on those countries which can best employ them and which are in the greatest need.

The Administration's study entitled U.S. Participation in the Multilateral Development Banks in the 1980s recommended that the U.S. phase-down and eventually phase-out paid-in capital in future MDB replenishments. The proposed levels in the new replenishments represent a declining reliance on paid-in capital as the institutions have matured financially. It is a balanced compromise that reflects our budgetary situation and the views of both the Congress and the capital markets. By reducing the proportion of paid-in capital, we reduce the budgetary cost to U.S. taxpayers while maintaining the financial soundness of these institutions.

In the case of the IDB, the new level of 4.5 percent paid-in will result in annual budgetary savings of almost $40 million per year, or $160 million over the four-year period of the replenishment, compared with the 7.5 percent paid-in level of the last replenishment. The reduced level of paid-in was accompanied by an increase in the convertible currency subscriptions of the borrowing member countries. The borrowing member countries will now provide 100 percent of their paid-in capital in convertible currencies as compared to 66 percent in the last replenishment.

In the Asian Development Bank, the General Capital Increase (GCI) calls for five percent paid-in compared to ten percent in the previous replenishment. This will result in savings of about $7 million annually, or about $35 million over five years, for the United States.

BUDGETARY IMPLICATIONS

The FY 1984 request for the MDBs represents an increase of approximately $88 million in budget authority, and $529 million under program limitations over the FY 1983 request.

THE WORLD BANK GROUP

-- For the International Bank for Reconstruction and Development (IBRD), we propose $109.7 million in budget authority and $1.35 billion in callable capital under program limitations for the third of six installments of the U.S. share of the 1981 General Capital Increase.

-- For the International Development Association, the Administration is requesting $1.095 billion in fiscal year 1984, which together with the $245 million being requested in the supplemental appropriation for fiscal year 1983 will complete the U.S. contribution to IDA VI.

THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

-- For subscription to IDB capital, the Administration has submitted and seeks Congressional approval of authorization legislation for an increase in the U.S. subscription to the capital of the Bank. Included in the FY 1984 appropriation request is the first of four equal annual subscriptions consisting of $58 million in budget authority for paid-in capital and $1,231 million under program limitations for callable capital.

-- For the Fund for Special Operations (FSO), the Administration is submitting and seeking Congressional approval of authorization legislation for a $290 million U.S. contribution to the FSO. The first tranche of $72.5 million is being sought in the FY 1984 appropriation request. Together with prior unfunded requests amounting to $41.1 million, the total FY 1984 request for the FSO is $113.6 million.

-- Partially modeled after the International Finance Corporation, the Inter-American Investment Corporation would be a separate entity which provides development assistance to the private sector in Latin America and Caribbean. The member countries of the Inter-American Development Bank have discussed formation of such a Corporation for a number of years and we remain hopeful that an agreement on the capitalization of the IIC can be achieved shortly. After the agreement is completed, the Administration will seek authorization from the Congress. The $20 million requested for FY 1984 is what we envision to be the first of four annual installments.

THE ASIAN DEVELOPMENT BANK

-- The ADB Board of Directors agreed on a proposal for a General Capital Increase (GCI) in the Asian Development Bank (ADB) on March 17, 1983. Our proposed share of the GCI calls for a U.S. paid-in capital subscription of $66.2 million and $1.257 billion for callable capital over five years. This overall amount translates into an annual request level of $13.2 million for budget authority and $251.4 million under program limitations -- a modest increase over the levels in the January budget estimates, ($6.9 million paid-in and $224.6 million under program limitations). The amount of paid-in capital represents a significant reduction from the $20.4 million annual amount for the last general capital increase.

-- For the Asian Development Fund (ADF), we are requesting $147 million which includes $130 million for the first tranche of the third replenishment (ADF IV), $3 million for the remaining portion of our share of the second replenishment (ADF III), and $14 million for an unfunded portion of the first replenishment (ADF II). We have submitted and seek Congressional approval of authorizing legislation for U.S. contributions to the new replenishment (ADF IV).

THE AFRICAN DEVELOPMENT BANK

-- U.S. membership in the African Development Bank (AFDB) was authorized in 1981 as was a U.S. subscription of $359.7 million of AFDB capital. The Congress appropriated the first installment of the U.S. subscription to the AFDB in 1981. This installment included $17.99 million for subscription to paid-in capital and $53.96 million, under program limitations, for subscription to AFDB callable capital. A second installment with identical amounts for paid-in and callable capital subscriptions is being sought in FY 1984.

-- In 1982, negotiations for a third replenishment of African Development Fund (AFDF III) resources were completed. Legislation authorizing a $150 million U.S. contribution to this replenishment was submitted to, but was not enacted by the 97th Congress. The Senate passed this legislation last year, and the debate on the House floor last December demonstrated broad bipartisan support for this element of the U.S. foreign assistance program. This legislation has been resubmitted to the 98th Congress. Upon enactment of this legislation the United States will provide its first $50 million installment under authority of the 1983 Continuing Resolution. The FY 1984 request is for the second installment of $50 million to AFDF III.

While not the direct responsibility of this Committee, I should stress that further delay in the authorization of the AFDF replenishment would impair economic growth in the borrowing countries at a critical time. About $170 million in project loans have been approved but are awaiting financing. Other donors provided their first installment for the current replenishment totalling $200 million last year to finance the lending program. Under the replenishment agreement, they need not provide additional funds until the United States contributes its first $50 million installment. The delay is denying the borrowing countries the benefit of the output of projects that would otherwise come on stream at a time when they are needed. I urge your support for the authorization legislation when it is brought to the floor.

CONCLUSION

In conclusion, Mr. Chairman, I would like to re-emphasize my strong conviction that the multilateral develoment banks are essential to U.S. interests. They can be effective instruments for promoting economic growth and political stability in the developing world. They can encourage sound national economic policies and provide an effective framework for bringing the developing countries into the open market system we espouse. Moreover, the banks give us good value for our money with U.S. budgetary expenditures multiplied many times over in actual bank lending. They benefit borrowers and lenders, developing and developed countries alike.

The global/economic problems we face have a direct bearing on our national security interests. Healthy and growing economies in developing countries can strengthen the foundation of our international economic system, and maintain a stable environment conducive to our well-being and the well-being of other nations.

The seriousness of the current world situation leaves little doubt about the importance of sustained economic growth. Now is clearly the time to work constructively with our allies to enhance the effectiveness of these important institutions and to maximize their impact on global economic development. I urge you to provide the necessary funding to sustain the operations of the multilateral development banks and thus encourage their important role in building a cohesive and stable world.

TREASURY NEWS

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

File

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
April 13, 1983

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
BEFORE THE COMMERCE, CONSUMER AND MONETARY AFFAIRS
SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
APRIL 13, 1983

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to appear before your Subcommittee this morning to discuss the ways in which U.S. tax treaties with tax haven countries are used for the avoidance and evasion of taxes, and to explain to the Subcommittee U.S. tax treaty policy in this regard.

U.S. Tax Treaty Policy

Tax treaties are mechanisms for dividing taxes on international transactions between two countries that have authority to tax: the country of the source of the income and the country of residence of the recipient. As the official titles of our tax treaties state, treaties are intended (a) to prevent double taxation and (b) to prevent avoidance and evasion of the tax of the two countries.

We believe that an income tax treaty is a contract between two countries designed to benefit directly the residents of the two countries and not indirectly residents of third countries. In the discussion that follows, I will attempt to show how this basic purpose is being implemented in the tax treaty policy of the United States by the use of provisions to combat treaty shopping.

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Treaty shopping, in essence, is the ability of residents of countries other than the countries that are parties to the treaty to derive treaty benefits (such as rate reductions on passive income) by channeling investments through entities organized in or resident in a treaty jurisdiction.

It is the policy of this Administration not to enter into new treaties which permit the unwarranted granting of benefits to residents of third countries and, as appropriate, to renegotiate, or, if necessary, to terminate, existing treaties to accomplish this objective. Limitation of benefits provisions (which define the permissible classes of treaty beneficiaries) will be employed wherever necessary, and in the form appropriate to the circumstances, to ensure that U.S. policy goals are met by the extension of benefits in our tax treaties.

We recognize that this policy cannot be applied inflexibly. For this reason, we have no one model limitation of benefits provision and indeed do not believe that a single model would be appropriate. In view of the wide range of international economic relationships and the diversity of foreign tax systems, we approach each treaty relationship separately.

The limitation of benefits policy has several objectives. First, treaty shopping results in tax avoidance because treaty benefits are obtained by unintended beneficiaries who do not reside in a treaty country, but channel their investments through entities formed in such a country. In this manner, the purposes of a tax treaty are frustrated. Instead of a treaty preventing double taxation by dividing the right to tax between the country of the source of the income and the country of the investor's residence, so as to result in the collection in the aggregate of one full tax, treaty shopping enables the investor to reduce the tax of his residence country, the tax of the source country (in this case, the United States), or both.

For example, assume that the treaties between the United States and each of country A and country B provide for a 15 percent U.S. tax on dividends. Under our treaty with country A and country A internal law, dividends that a country A investor receives from a U.S. company are taxed at the full country A rate of over 50 percent, except that country A allows a foreign tax credit for the 15 percent U.S. tax. The result is an overall tax at the full country A rate, i.e. neither double taxation nor tax avoidance. In contrast, if the country A investor interposes a country B company, country B would tax the dividend at a much lower effective rate, and country A would receive no tax, at least while profits remain undistributed to the country A investor. Depending on country A law, there may be no tax or a low country A tax if the investor sells the shares of

the country B company instead of having it pay dividends. Accordingly, instead of dividing one full tax between the U.S. fisc and that of the country of residence (country A), both the United States and the country of residence have transferred revenue to the investor.

Second, use of our treaties by third-country residents makes it more difficult for the United States to conclude treaties directly with those third countries. If residents of these countries can enjoy U.S. treaty benefits by the simple and inexpensive expedient of establishing an entity in an appropriate U.S. treaty country, their countries of residence are under little incentive to enter into treaties with the United States. Since such treaties would reduce foreign taxes, the result is higher taxes abroad for U.S. businesses. The same issue arises with respect to our existing treaty partners. If, for example, there is a 15 percent withholding tax on interest in an existing treaty, which we would like to reduce, reciprocally, to zero, that country is under little pressure to agree to such a change if its residents can receive a zero U.S. tax rate by investing in the United States through an entity formed in another U.S. treaty jurisdiction.

We see increasing evidence that this analysis is accurate. For example, we have recently been advised that both the government and the private sector of an important non-treaty country have expressed, for the first time, an interest in commencing negotiations on a tax treaty with the United States. This interest reportedly arose as a result of concern that the current U.S. policy of limiting treaty shopping would seriously curtail alternative tax-free or low-tax routes for investment in the United States.

Third, use of tax treaties by third-country residents violates the coherence of the Internal Revenue Code. The Code provides for a 30 percent tax to be imposed on payments of U.S.-source passive income to foreign persons, except where a tax treaty provides for a reduced rate on a reciprocal basis. If any foreign investor can avoid that tax by interposing a treaty-protected entity, then that treaty has, in effect, replaced our internal law. Such a process can serve only to erode confidence in the integrity of the U.S. tax system. If Congress wishes unilaterally to repeal or modify the present statutory tax, that should be done explicitly, by both houses of Congress, and not by inadvertence.

Our policy of limiting treaty shopping has been supported by the tax-writing committees of Congress and by the Senate Foreign Relations Committee. In 1981 the Administration was encouraged by the Senate Foreign Relations Committee and the chairmen of

both the House Ways and Means and Senate Finance Committees to renegotiate the then recently signed and pending treaty with the British Virgin Islands so as to reduce the opportunities for third country use. Because we were unable to agree with the British Virgin Islands on a sufficiently restrictive limitation of benefits provision, the existing treaty was terminated effective January 1 of this year and a new treaty was not concluded. The Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs and this Subcommittee have shown a strong and constructive interest in the problems presented by tax haven treaties and their use.

Tax Treaties with Tax Havens

The potential for abuse of tax treaties is a matter of concern in many tax treaties; however, the degree of concern varies significantly from treaty to treaty. The precise scope of the limitation of benefits article that we negotiate in a treaty is specifically tailored to the needs of the particular bilateral relationship in question. In negotiating a treaty with a country that has a high effective rate of tax on the income of its residents and that has withholding taxes on payments to non-residents, we have considerably less concern than we would have in a treaty with a country that imposes a low effective tax burden on its residents (or on certain classes of residents, such as resident entities that do business offshore) and that has no withholding taxes on payments of income to nonresidents. The latter case exemplifies a tax haven treaty partner.

We have, at the present time, tax treaties with several jurisdictions that are generally acknowledged to be tax havens. This results largely from historical accident; during the 1950's our tax treaties with several European partners were extended to a number of their overseas dependencies. Some of these have become tax havens and have been exploiting their tax treaties with the United States. The most prominent of these is the Netherlands Antilles.

As I indicated above, it is our firm policy to include limitation of benefits provisions in any new tax treaty, in whatever form is necessary to deal with the potential abuse in that particular bilateral relationship. Since the basic purpose of a tax treaty is to eliminate double taxation, treaties with tax havens cannot be justified on that basis. Thus, it is our general policy not to enter into any new tax treaty relationship with a tax haven, unless, in addition to the typical "tax haven" business, substantial real economic relations exist between the United States and that country. With respect to our existing tax haven treaties, we are examining these relationships to determine whether they should be terminated, or modified in such a way as

to eliminate the potential for abuse. Presently, we are actively taking the latter course with the Netherlands Antilles, seeking a treaty which would foster increased real trade and investment between the Antilles and the United States while, at the same time, protecting broader U.S. interests by obtaining improved exchanges of information and by foreclosing the opportunities for inappropriate use by third-country residents.

Netherlands Antilles Treaty

The present tax treaty with the Netherlands Antilles is a 1955 extension of our treaty with the Netherlands. It is subject to widespread abuse. Residents of third countries who are not themselves entitled to U.S. treaty benefits are claiming, by routing their U.S. investments through an Antilles entity, U.S. tax benefits provided under that treaty. Because of a relatively low and flexible tax in the Netherlands Antilles, and because no taxes are levied under Antilles law on income payments to nonresidents of the Antilles, a substantial reduction of U.S. tax liability flows through to the third-country investor. This treaty has often been referred to as "a one-way tax treaty with the world." For this reason, and to obtain better exchanges of information, we are renegotiating the treaty.

I would like to illustrate through simple examples the way in which third-country persons claim that the existing treaty and Antilles tax law interact to provide these benefits.

Investment Companies

The following is a simple illustration of the way in which interposition of an Antilles company may reduce the U.S. tax burden to a third-country investor. Assume an individual resident of a country with which we have no bilateral income tax treaty wishes to invest in stock of a U.S. corporation. If such investor were to purchase such stock directly, he generally would be subject to a statutory U.S. tax imposed at the rate of 30 percent on the gross amount of his dividend income. In addition, there also would be a potential U.S. estate tax exposure if the investor were to own the stock upon his death. This U.S. tax exposure could make the proposed investment unattractive. However, by utilizing an Antilles corporation to make the proposed investment, the ultimate individual investor may be able to minimize his U.S. tax exposure at a small cost. More specifically, an investor would cause an Antilles corporation to be formed and managed in the Antilles, generally by an Antilles trust company. The fee for such services is low. The corporation would then purchase the U.S. stock. To maximize the investor's after-tax return with respect to the foregoing investment, the investor would have leveraged the Antilles

corporation to the maximum extent possible, i.e., lent the corporation a major portion of the funds that it uses to make the investment at an interest rate slightly below the corporation's anticipated yield from the investment.

Under the treaty, dividend payments to the Antilles corporation may flow out of the United States with the imposition of a 15 percent tax and are subject to taxation in the Antilles at a rate of 15 percent. However, since the net income of the Antilles corporation is reduced by the interest payments, the tax liability to the Antilles is minimal. Moreover, since the Antilles does not impose a local withholding tax on interest and dividends paid to non-Antilles persons, there is no other Antilles tax cost in paying the after-tax proceeds to the ultimate investor. In addition, the investor is not subject to a U.S. estate tax exposure. (The Antilles does not impose estate, inheritance or gift taxes on nonresidents of the Antilles.) Thus, since the combined United States and Antilles effective tax rate can be as low as approximately 16 percent of the gross dividend income, the after-tax savings of utilizing an Antilles vehicle are apparent.

Such a transaction highlights our three causes of concern expressed above: (1) U.S. tax benefits flow to an unintended beneficiary; (2) the investor's country of residence has less incentive to negotiate a treaty with the United States, thus depriving U.S. businesses of the reductions in foreign tax that we would obtain in a tax treaty; and (3) use of the Antilles treaty results in a de facto reduction of the U.S. statutory tax.

International Finance Subsidiaries

In theory, any treaty partner having a low or zero tax rate on U.S.-source interest income as a result of a bilateral income tax treaty with the United States and having no local withholding tax on interest paid to nonresidents of that jurisdiction could be a situs for the creation of an international finance subsidiary. However, the most frequently used structure for borrowing funds in the Eurodollar market has involved use of a corporation incorporated in the Netherlands Antilles.

Typically, the ultimate U.S. corporate borrower forms a corporation in the Netherlands Antilles as its direct or indirect wholly-owned subsidiary and contributes to it an amount of capital in the range of about one-half to one-third of the amount of debt to be issued by the subsidiary. The subsidiary borrows funds from, and issues debt instruments to, foreign lenders. The U.S. parent or affiliate of the international finance subsidiary guarantees the obligations of the international finance subsidiary to its foreign lenders. The terms of such borrowings

provide that the lender will receive the stated interest payments net of United States and Netherlands Antilles tax. Thus, if a U.S. tax were to be imposed on the interest paid by an international finance subsidiary, the international finance subsidiary, or the guarantor in the case of non-performance by the international finance subsidiary, would be liable to pay the amount of such tax as additional interest to its bondholders. It is also common for the international finance subsidiary bonds to provide for optional redemption by the international finance subsidiary in cases in which a U.S. tax is actually, or is likely to be, imposed on the interest payments.

The international finance subsidiary relends the proceeds of its borrowings to its U.S. parent or to a U.S. affiliate on substantially similar terms and conditions to those contained in the international finance subsidiary borrowing, except that the international finance subsidiary charges a slightly higher interest rate than it pays on its own bonds. The U.S. parent or affiliate issues its own note to the international finance subsidiary to evidence the borrowing.

The bonds issued by the international finance subsidiary are typically sold either in a public underwriting or in a private placement. As they initially are sold only to foreign lenders, the bonds do not have to be registered with the U.S. Securities and Exchange Commission, even if issued in a public underwriting. The bonds are normally issued in bearer form and are frequently listed and traded on foreign exchanges.

The following beneficial United States and Netherlands Antilles tax consequences may result from use of such a structure if it is respected for U.S. tax purposes:

(1) The U.S. borrower receives a deduction for interest paid or accrued to the international finance subsidiary.

(2) Under the terms of the treaty, U.S. tax is not imposed on interest payments made by the U.S. parent or affiliate to the international finance subsidiary if the international finance subsidiary elects to be taxed in the Netherlands Antilles at the normal corporate rate of 24 to 30 percent of its net income, rather than at the special 2.4 to 3 percent rate otherwise available to investment companies. Under the terms of the treaty, a failure on the part of the international finance subsidiary to make this election would generally preclude a reduction of the 30 percent U.S. tax on U.S.-source interest payments.

(3) Although the international finance subsidiary elects to pay tax to the Netherlands Antilles at the normal 24 to 30 percent corporate rate, the Netherlands Antilles tax is imposed

only on the amount of the net income of the international finance subsidiary (i.e., on the spread between the interest received from its U.S. parent or affiliate and the interest paid to the foreign bondholders).

(4) No Netherlands Antilles income tax and, in accordance with the terms of the treaty, no U.S. income tax is imposed on interest paid by the international finance subsidiary to its foreign bondholders.

(5) No U.S. or Netherlands Antilles income tax is imposed on the sale, redemption or other disposition of the international finance subsidiary bonds by the foreign bondholders.

(6) The net income of the international finance subsidiary is treated as the income of its U.S. parent under the Subpart F rules of the Internal Revenue Code. Consequently, the U.S. parent claims a foreign tax credit for the Netherlands Antilles tax paid by the international finance subsidiary. In addition, the U.S. parent is treated as having received foreign source income for purposes of calculating its foreign tax credit limitation, which may enable the parent to utilize otherwise "excess" credits for taxes it has paid to high-tax jurisdictions.

(7) The bonds of the international finance subsidiary are not subject to U.S. estate tax or to the Netherlands Antilles estate (or inheritance) tax if owned by a nonresident alien individual.

International finance subsidiaries are generally established by U.S. corporations as an access route to the Eurodollar market on a tax-free basis, which may be the only way such bonds are marketable. It is a widely held view, which we share, that the U.S. economy benefits from such access.

Today, the principal route of access for U.S. companies to the Eurodollar market is through the Netherlands Antilles. There are, however, other possibilities. For example, legislation was introduced in the last Congress, by Representatives Conable and Gibbons, which would exempt from the 30 percent U.S. tax certain forms of U.S.-source interest paid to foreign persons, including Eurodollar interest, but excluding interest paid on bank loans and interest paid to shareholders other than portfolio investors. The legislation also contained a provision permitting the withdrawal of the exemption with respect to residents of a foreign country if it does not exchange information necessary to prevent evasion of U.S. tax by U.S. persons. The Administration supported that legislation, and continues to believe that legislation of that type represents the most efficient and effective way of assuring access to the Eurobond market for U.S. companies.

In addition, I would also like to mention that under current law the U.S. tax consequences of the type of Eurodollar transaction described above are not entirely settled. Several Internal Revenue Service audits have raised the question whether the interest exemption under the Antilles treaty is properly applicable to such transactions. These issues have not been resolved.

Exchange of Information

There is one other issue relating to the present Netherlands Antilles treaty that I would like to touch upon. Like all tax treaties, the present Antilles treaty provides for exchange of information. However, because of strict bank secrecy rules in the Antilles and the widespread use there of bearer shares, we are not able to obtain from the Antilles much information that the Internal Revenue Service believes is necessary for proper enforcement of our tax laws. This is a deficiency which, along with treaty shopping, we would seek to correct in a new treaty.

Current Treaty Negotiations

As the Subcommittee is aware, negotiation of a new treaty is currently under way, having progressed through eight rounds of discussions since 1980. We are now at a very sensitive stage in these negotiations, and I believe that it would not be in our best interests to discuss the negotiating positions of the two sides publicly. I am hopeful that we will be able to reach agreement shortly with the Antilles on a new treaty.

Section 342 of TEFRA

There is one other area on which you requested our comments. Section 342 of the Tax Equity and Fiscal Responsibility Act of 1982 was enacted in response to the concerns raised at earlier hearings of this Subcommittee. Section 342 directs that procedures be designed which will prevent the kind of abuse that occurs through the improper use of nominees and other conduits that pass U.S.-source income through to a person who is not a bona fide resident of the treaty country.

A number of alternatives to the present enforcement system exist, including the adoption of a refund system of withholding tax on passive income. A refund system would require withholding agents to withhold U.S. tax at the statutory 30 percent rate on all U.S.-source passive income paid to foreign persons, regardless of potential application of a treaty provision reducing the 30 percent rate or eliminating the tax altogether. The foreign recepient who claims treaty benefits would then be required to file a claim for a refund on an annual tax return. Supportive

documentation would be required . Another approach, the "certification system," would require the foreign recipient to file a certificate of residence from the competent authority of the country whose treaty benefits are being sought. Pursuant to the mandate of section 342, we are presently considering such stricter procedures. In this regard, we have requested information from our treaty partners as to their systems of enforcing reduced tax rates and their ability to cooperate with different alternative we may adopt. We have begun to receive responses to our inquiries, and are in the process of analyzing them.

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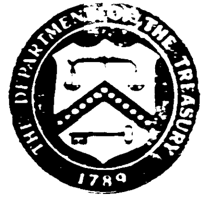
TREASURY NEWS



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TREAS

For Release Upon Delivery
Expected at 10:00 a.m. EST
Wednesday, April 13, 1983

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to appear before your Committee in support of the Caribbean Basin Economic Recovery Act, introduced as S. 544. S. 544 contains the trade and tax portions of the President's Caribbean Basin Initiative (CBI). The CBI represents an important commitment by the United States to the economic development of the countries of the Caribbean Basin, which include Guyana, Surinam, the countries of Central America and the island nations of the Caribbean.

I will address my remarks only to the tax provisions in Title II of the bill. The tax component of the legislation provides favorable tax treatment for business expenses incurred in attending a convention, seminar or similar meeting in a Caribbean Basin country, including Bermuda, if the country satisfies certain conditions that I will describe below. The bill also contains a provision to ensure that the proposed tariff reductions on rum will not adversely affect the revenue sources of Puerto Rico and the Virgin Islands.

Mr. Chairman, this Committee previously considered the tax provisions of this bill in December of last year. On December 20, 1982, this Committee ordered H.R. 7397 reported to the full Senate. The tax provisions of H.R. 7397 were substantially identical to those in S. 544, except that the effective dates for these provisions have been changed from December 31, 1982 to June 30, 1983.

Deductions for Business Expenses Incurred Attending Conventions in Qualifying Countries

The bill would cause Caribbean Basin countries designated by the President as eligible for the benefits of the Act, and Bermuda, to be treated as part of the "North American area" for the purpose of allowing deductions for ordinary and necessary business expenses of attending conventions and similar meetings held in these countries if the country where the meeting is held has entered into an executive agreement to exchange tax information with the United States and does not discriminate under its tax laws against conventions held in the United States (a "qualifying country"). While I have previously testified against a series of proposals which would further relax the rules for deducting expenses related to foreign conventions, there are two reasons why the Treasury Department supports S. 544.

First, this legislation is a carefully crafted package which addresses a problem of overriding national interest. As Secretary Shultz pointed out in his testimony before this Committee last August, there is an economic crisis in the Caribbean region that threatens our well-being. The world economic slowdown of the last few years has severely affected these countries, reducing demand for and prices of the exports they must sell to purchase imports such as oil and other essential products. Tourism, an important source of foreign exchange, has also suffered. The foreign convention provisions of this bill directly address this problem. A strong tourism industry will not only help alleviate the current economic crisis but will also finance the investment that is crucial for stable, long run economic growth.

The second reason for Treasury's support is that the bill's provisions requiring agreements for reciprocal exchange of tax information as a condition of the foreign convention deduction ensure that the U.S. tax system will be strengthened, not weakened, by passage of this legislation. It is in this context that Treasury supports this legislation.

The Exchange of Information Agreements

S. 544 authorizes the Secretary of the Treasury to negotiate and conclude the exchange of information agreements. While the Secretary is accorded discretion regarding what kinds of information will be included within the scope of the exchange of information provisions, the Act imposes certain minimum standards for such agreements.

The exchange of information provisions in the agreements must include within their scope tax information pertaining to "third-country persons," that is, nationals or residents of countries other than the United States or the qualifying country that is a party to the agreement. The agreement would of course also apply to information pertaining to citizens, residents and corporations from the United States and the country that is party to the agreement. Under this bill a jurisdiction with restrictions on disclosure of information regarding such third country persons would be required to modify such restrictions. The bill would also require that the same principle apply with respect to disclosure of information regarding bank account information or share ownership.

The exchange of information agreements will be terminable on reasonable notice by either party. Deductions would not be allowed for business conventions or similar meetings begun after the termination of an exchange of information agreement.

The Secretary may incorporate by reference in an exchange of information agreement the exchange of information provisions of an existing income tax treaty with a country, provided such treaty provisions otherwise satisfy the requirements of the statute. The recently ratified treaty with Jamaica, for instance, will satisfy such standards, based on assurances given the United States in the negotiation of a 1981 Protocol to the treaty regarding Jamaican tax authorities' power to obtain bank account information under the treaty. However, it should be clearly understood that exchange of information agreements may be entered into with a country whether or not the country has a tax treaty with the United States.

It is expected that the exchange of information agreements will generally become effective on signature. The text of the agreements will be transmitted to Congress not later than sixty days after the agreement has been signed in accordance with the prescriptions of the Case Act (1 U.S.C. section 112b).

Exchange of tax information assists the administration of the tax laws of both the United States and the qualifying country. The tax administrators of qualifying countries will have access to information from the Internal Revenue Service regarding their taxpayers who engage in economic

activities in the United States and thereby should strengthen their own tax administration. This self-help aspect of the measure is consistent with the overall concept of the Caribbean Basin Initiative.

Our concerns are not limited to tax havens. As international economic transactions increase so does the importance of international cooperation in tax administration and cooperation.

The Need for International Exchange of Tax Information

As you are aware, the United States uses a self-assessment system in its collection of taxes. Each taxpayer files a return and pays the amount due on the return without governmental assessment. This is unlike the procedure in many foreign countries where the government sends each taxpayer an assessment of tax due.

Our self-assessment system relies in significant part on the perception by taxpayers that the tax system is equitable and that each person is paying his fair share. This Committee recognized that noncompliance undermines the perceived and actual equity of our tax system in its work on the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA").

The enforcement of our self-assessment system relies on a carefully targeted audit and examination program and, in appropriate cases, on application of criminal enforcement sanctions. A key to an effective examination program is access to information. Information allows our examiners to confirm the information reported on a return and to ferret out those who would evade paying their share of taxes. This is as true for international transactions as it is for purely domestic transactions.

The United States' tax interest under the Internal Revenue Code (the "Code") extends beyond its borders. Under the subpart F, foreign personal holding company and foreign investment company provisions of the Code, a U.S. shareholder in a foreign corporation that is more than fifty percent owned by U.S. persons may be subject to tax on income measured by the earnings of the foreign corporation, even though it may not conduct any business in the United States. In addition, the Internal Revenue Service has broad powers under section 482 of the Code to reallocate income, deductions or credits of two or more businesses owned or controlled directly or indirectly by the same interests in international as well as domestic transactions. Administration

of these provisions requires that the United States be able to obtain information with respect to international transactions.

The need for international exchange of tax information also extends to information which may be used in criminal tax cases. The Permanent Subcommittee On Investigations, under the chairmanship of Senator Roth, has recently held hearings on the use of offshore banks and companies to evade tax on legally earned income as well as to launder profits from illegal activities. In most international transactions it would be impossible to uncover unreported income without the assistance of the foreign country in obtaining information which permits tracing funds earned in the transaction.

The ability of the United States to obtain documents or testimony for tax purposes from foreign countries is limited by the jurisdictional reach of U.S. laws. However, information may be obtained under our bilateral income tax treaties. The United States enters into tax treaties with countries which impose income taxes. These countries are generally cooperative in exchanging tax information of all kinds with the United States. In the case of exceptions, we carefully evaluate whether the benefits obtained by the United States under the treaty outweigh our concerns regarding cooperation in matters of tax administration and enforcement. It is appropriate to consider the importance of exchange of information in light of overall U.S. policy goals.

The exchange of information agreements provided for in S. 544 would require that we obtain more information than we presently receive under the exchange of information provisions of some of our tax treaties. One reason for this is that the foreign convention deduction provided by S. 544 represents the unilateral extension of a tax incentive by the United States. In that regard, countries that receive the benefit of U.S. tax incentives should generally be asked to cooperate in matters of tax administration and enforcement. This is necessary to preserve the integrity of the U.S. tax system.

The exchange of information provisions required by this legislation are broad. We do not, however, ask other countries to do more for us than we would do for them.

Puerto Rico and the U.S. Virgin Islands

As an essential counterpart to the proposals to assist Caribbean Basin countries, the Act includes an important revenue measure for Puerto Rico and the U.S. Virgin Islands.

This measure will ensure that the development of the rum industry in the Caribbean Basin induced by the Initiative does not reduce a major source of revenues to Puerto Rico and the Virgin Islands.

Under present law, the Internal Revenue Code imposes an excise tax on rum. All U.S. excise taxes collected on rum produced in Puerto Rico or the Virgin Islands and transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) are paid to Puerto Rico and the Virgin Islands, respectively. These U.S. excise taxes supply about 10 percent of Puerto Rico's annual government budget, and about 20 percent of the annual budget of the Virgin Islands.

In order to maintain this revenue source for Puerto Rico and the Virgin Islands, the legislation provides that all excise taxes collected on rum imported into the United States from any country (less the estimated amount necessary for payment of refunds and drawbacks) will be paid over to the treasuries of Puerto Rico and the Virgin Islands. The legislation further provides that the Secretary of the Treasury will prescribe by regulation a formula for the division of these tax collections between Puerto Rico and the Virgin Islands.

It is the Treasury Department's view that the formula to be prescribed should protect the revenues of Puerto Rico and the Virgin Islands without regard to future levels of rum production. The formula for division would therefore be based on Puerto Rico's and the Virgin Islands' 1982 share of the U.S. rum market.

The estimated revenue cost of the transfer to Puerto Rico and the Virgin Islands of the tax collections on imported rum is about $10 million in fiscal year 1984.

<u>Conclusion</u>

I thank you, Mr. Chairman and Members of the Committee for the opportunity to testify in support of this important legislation.

I would be pleased to entertain any questions you might have at this time.

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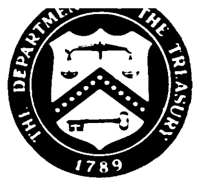
TREASURY NEWS



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FOR RELEASE AFTER 6:00 P.M.
Wednesday, April 13, 1983

DEPUTY SECRETARY MCNAMAR URGES CLOSER LINKS BETWEEN INTERNATIONAL TRADE AND FINANCE

"The interrelationship of trade and finance issues has been ignored for too long. It is unfortunate that the severe debt servicing problems of many developing countries has had to serve as a catalyst to remind us of the importance of this linkage," said R. T. McNamar, Deputy Secretary of the Treasury.

Speaking tonight before the Council of Foreign Relations in Washington, D.C., Mr. McNamar stressed the importance of developing closer links between international trade and finance.

In discussing the past lack of coordination between trade and financial policies, Mr. McNamar said that in most countries, "completely separate bureaucracies exist for trade and finance. Each has its own separate constituency and each pursues its own independent agenda."

Following on Secretary Regan's earlier call for a review of the international financial system the Secretary last week announced a joint meeting of trade and finance ministers, to give ministers a chance to discuss the current international economic situation from both a trade and a finance perspective. The joint meeting, the first of this sort, will take place in Paris directly after the OECD Ministerial May 9-10. The Secretary and USTR William Brock have invited the trade and finance ministers from the Summit countries as well as heads of several major multilateral institutions.

Mr. McNamar said tonight, "At the May meeting, the ministers will begin exploring the implications some of the problems I've discussed tonight. We will suggest some solutions -- avoidance of protectionism, encouragement of liberalization of LDC trade measures, and stable economic policies. Other proposals which should be explored are greater GATT/IMF/World Bank cooperation, and ways of encouraging North-South trade."

"I'm optimistic about this meeting. At the very least, Secretary Regan will have accomplished a great deal just by getting the trade and finance ministers from seven countries to sit down in the same room together. They have a lot in common that they may not be aware of."

Commenting on the LDC debt situation that heightened the awareness of the trade-finance linkage, McNamar said, "LDC debt -- a financial issue -- has major implications for all nations' exports, and the growth of all economies -- and these are clearly trade issues."

"Unless the debtors are able to adjust their economies smoothly, exports will be cut back drastically, with trade being reduced to a cash-and-carry basis, or worse yet, bilateral barter. If private banks were to cut back on loans too fast to allow for orderly adjustment, LDCs would be placed under strong pressure to relieve their debt burden through other means, including the imposition of import restraints or self-defeating export subsidies which must themselves be directly or indirectly financed through additional external borrowing. Such inefficient economic policies would hamper the long-run development and growth of these countries."

"The importance of exports to LDCs simply isn't adequately understood in the U.S. or among European and Japanese policymakers," McNamar said. "Fully 8.4 percent of U.S. GNP is devoted to exports and 27 percent of that goes to LDCs. Putting those together, 2.7 percent of our total GNP is on the line here. How many jobs is that?"

"Europe and Japan are even more dependent on such exports. Where we have primarily Latin American debtors, they have Asian, African, Eastern European and Latin American debtors. Over 3 percent of Europe's GDP and 4 percent of Japan's GDP depend on exports to LDCs. And their portions of the $500 billion of LDC debts are larger in relationship to their economies than our part is to our economy."

Mr. McNamar indicated that we are "entering Phase II of the adjustment to the Less Developed Country debt problem" -- a phase where obtaining and sustaining non-inflationary growth will be of key importance.

He added, "It is not just the developing countries which face the debt problem. No country can problem isolate itself from the and no trade minister can afford to assume that the finance minister can handle it alone. We are all in this together and we all have responsibilities to ourselves and obligations to each other in working through the problem."

"I'm not talking just about obligations in a legal sense; I am talking about the kinds of obligations that countries, developed and developing alike, should follow for their own self interest -- because in the long-run they will profit from adhering to them. They should also accept to these obligations because they help to strengthen the international economic system".

McNamar concluded by saying, -- "Let us profit from this experience to set the ground for greater coordination of policies in the future."

"There are reasons to be optimistic about the future of the international economic system if countries follow policies designed to foster their long-term economic self interests not

short-term political expedients."

"There is a need for continued financing (IMF, private banks, and, in selected cases, government/central bank bridge) in support of LDC adjustment."

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TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. April 13, 1983

TREASURY TO AUCTION $7,750 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $7,750 million of 2-year notes to refund $4,244 million of 2-year notes maturing April 30, 1983, and to raise $3,506 million new cash. The $4,244 million of maturing 2-year notes are those held by the public, including $460 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $7,750 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities (including the $460 million of maturing securities) will be added to that amount.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $342 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.

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

oOo

Attachment

R-3029

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED MAY 2, 1983

April 13, 1983

Amount Offered:

To the public........................$7,750 million

Description of Security:

Term and type of security...........2-year notes
Series and CUSIP designation........Series T-1985
(CUSIP No. 912827 PK 2)
Maturity date.......................April 30, 1985
Call date...........................No provision
Interest 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
Competitive tenders.................Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders..............Accepted in full at the average price up to $1,000,000
Accrued interest payable by investor........................None
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 20, 1983, by 1:30 p.m., EST
Settlement date (final payment due from institutions)
a) cash or Federal funds..........Monday, May 2, 1983
b) readily collectible check......Thursday, April 28, 1983

TREASURY NEWS

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

ADDRESS BY
R. T. MCNAMAR
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
COUNCIL ON FOREIGN RELATIONS
WASHINGTON, D.C.
APRIL 13, 1983

INTERNATIONAL TRADE AND FINANCE: THE OVERLOOKED LINK

Good evening. I appreciate this opportunity to appear before the Council. There are a variety of pressing economic problems now facing the world and therefore the United States. And, with the Economic Summit at Williamsburg only a few weeks off, many of these are now front page news. But I would like to go behind the headlines for a few minutes this evening to discuss an issue that is at the same time both obvious and ignored. That issue is the link between international trade and finance: a link that is simple, dull, and indispensible.

From the days of the Dutch merchant sailors to the captains of today's supertankers and international bankers, the men who have advanced the horizons of world commerce have understood the bond between finance and trade. Trade and finance are but two points on the economic circle. They are as connected in the total scheme of economic growth as points on the supertanker's compass.

Tonight I would like to explore the relationship of trade and finance, its importance, and the mutual economic obligations it creates for the developing countries and industrialized countries alike -- obligations which, frankly, a number of countries are not adequately meeting. Let's consider the linkages -- or if you will, interdependencies -- created by the world's open trading system and integrated international financial markets.

In an ideal world, trade and finance officials would develop common and mutually reinforcing policies that reflected the impact of monetary and fiscal policies on trade flows, or the impact of trade policy on economic growth, inflation and government fiscal policy. Unfortunately, I'm not optimistic enough to believe we can even hope for such sophisticated coordination in the near future. But the international debt problem has required trade and finance officials to recognize that their individual policies will either work together to solve the problem or work against each other to exacerbate it.

In this case the interrelationship of trade and finance is simple: debtors can't pay off their debts unless they can earn foreign exchange by exporting. Thus the industrialized

R-3030

countries' trade ministers must keep markets open so debts to their banks can be repaid. Of course, the linkage goes in the other direction as well. Trade ministers cannnot keep markets open unless sufficient financing is provided to cover essential imports into and exports out of their countries.

How strange then that so many of today's government ministers have trouble coordinating their policies; that so many trade and finance bureaucracies fail to work in concert; or that it has taken 1982's international debt problems to heighten our awareness of this economic nexus.

Given that the problem is somewhat obvious, you might ask why there is not already coordination, why the two policy areas have developed in isolation, with little regard for the impact on one another. The bifurcation can partially be explained by the basic organization of governments and the structure of international institutions.

Governmental Organization

First is the basic organization of governments. In all of the OECD countries but one (Germany), and in most governments in the world, completely separate bureaucracies exist for trade and finance. Each has its own separate constituency and each pursues its own independent agenda. Many countries handle trade as a function of the foreign ministry.

In Europe, the trade ministries have developed a more common approach through the EC competence mechanism, while the finance ministries have each followed far more individualistic policies. And, some countries even appear to be following internally inconsistent policies.

Recent events in the EMS suggest that the French export subsidy and import restriction practices are not only inconsistent with promoting an open trading system so LDCs can repay their French debts, they don't even lead to the stronger Franc they were designed to support. And, if the policies are internally inconsistent, how are they in harmony with the world's needs at large? Fortunately, very recently, French policies have begun to change towards more consistency.

Even where international trade and finance policies are coordinated, well-known "turf battles" occur. Rivalry in some countries is legendary.

Here in the U.S., we split trade and finance at least three ways -- between USTR, Commerce and Treasury (with intermittent involvement by OMB, State, DOE, etc.). However, we have a coordinating mechanism -- the Cabinet Council system, where we attempt to work out common policies. Around the world, it is surprising just how rare coordinating mechanisms are -- in some countries it seems the trade and finance ministers don't even regularly speak to each other.

International Organizations

The international institutions that developed after World War II mirrored the governmental division of trade and finance. The Bretton Woods Agreement created the International Monetary Fund (IMF) and the World Bank (International Bank for Reconstruction and Development) that concentrate on financial issues. They are both strong institutions with able, well-trained professional staffs that have accomplished much in their fields.

The hoped for parallel institution to promote international trade liberalization never came into existence. Instead we have made do with a legal framework -- the GATT (General Agreement on Tariffs and Trade). The GATT has evolved over the years into an international institution with a small staff of its own, and while it has accomplished much in way of trade liberalization, it is still a consensual organization.

However, just as the bifurcation of institutions mirrors that of the governments, so does the propensity of institutions not to work together. When they do speak, it is only in the form of "intervening" at each others' formal meetings.

The IMF comes to the GATT about twice a year to give its judgment on the balance of payments situations of countries which have imposed trade restrictions for balance of payments reasons. For the rest of the year, they rarely speak on an official basis. There is no mechanism, for example, for the GATT to provide input to IMF consultations and negotiations with its members, even though IMF discussions routinely include analysis of a country's trade policies, and often lead to commitments to liberalized trade.

A similar situation exists between the GATT and the World Bank. They don't talk to each other, despite the fact that the World Bank has also taken an interest in the liberalization of the trade sector of its members, and has sometimes made trade liberalization an important component of its structural adjustment lending programs.

Last year, I was appalled by the fact that I was one of only two ministerial level government officials who attended both the IMF meeting in Toronto in September and the GATT Ministerial in Geneva two months later. The IMF meeting was dominated by a mood of anxiety over fear of a financial collapse that would lead to an implosion of trade and worldwide depression. The latter was obsessed with concepts of protectionism to preserve existing jobs -- unmindful that these protectionist policies could lead to a constriction in trade that would undermine the ability of the debtor countries to service their debt, which in turn could weaken the financial system and contribute to the world depression that the finance ministers were seeking to avoid. Truly, the old shibboleth of ships passing in the night was never more true.

I think this is wrong. It is not just wrong for academic reasons, or for some noble notion of harmony and cooperation. It is wrong because both trade and finance ministries jointly face some major problems that neither can work out independently.

Singularly, the world's trade and financial systems are unsupportable; together they are sustainable and mutually reinforcing. Over the last decade, the massive changes forced by sharp increases in OPEC oil prices, disparate domestic policies, internationalization of the banking sector, and interconnected capital markets, have made the linkages of finance and trade tighter, and more critical.

Some of the problems of the future will also call for better coordination of trade and finance policymakers: the need for international rules to promote the free flow of international services and the free flow of investment require a fusion of ideas not a fission of historical bureaucracies.

The current debt problem of many of the developing countries and the impact of these problems on the international economic system as a whole make it crucial that policymakers recognize and reflect this linkage in developing trade, finance and general economic policy responses. Indeed, the linkage has become a bond or chain that binds the developed to the developing world, the poor to the rich, and the North to the South. The so-called new international economic order was defined by the marketplace and the merging of the world's economies, not by a resolution of the United Nations' General Assembly.

Think about the problem. Estimates of the total foreign debt of the non-OPEC LDCs range from $500 to $600 billion, depending on the definition -- five times the 1973 level. About $300 billion of this is owed to private Western banks -- one-third (or about $100 billion) to U.S. banks, and two-thirds (or about $200 billion) to European banks and Japanese banks. Individual countries face enormous debt burdens -- Brazil and Mexico owe between $80 and $90 billion each. Argentina had outstanding debts of about $40 billion. There were 20 debt reschedulings in 1982 alone.

But the trade ministries ask: what does this have to do with me? Isn't this just a finance or banking issue?

The answer is that LDC debt -- a financial issue -- has major implications for all nations' exports, and the growth of all economies -- and these are clearly trade issues.

Unless the debtors are able to adjust their economies smoothly, exports will be cut back drastically, with trade being reduced to a cash-and-carry basis, or worse yet, bilateral barter. If private banks were to cut back on loans too fast to

allow for orderly adjustment, LDCs would be placed under strong pressure to relieve their debt burden through other means, including the imposition of import restraints or self-defeating export subsidies which must themselves be directly or indirectly financed through additional external borrowing. Such inefficient economic policies would hamper the long-run development and growth of these countries.

These trade effects are very real. Look at the imports of one country that was forced to adjust suddenly -- a country that refused to adjust until it was almost too late -- Mexico. Mexico's merchandise imports fell from $23 billion in 1981 to $15 billion in 1982, a decline of 35 percent. The U.S. absorbed most of the cutback as its exports to Mexico declined by $6 billion. That rapid adjustment was absorbed by the United States. It can't be absorbed by many countries.

Or look around the world, where total export growth to non-oil LDCs last year slowed to $30 billion in 1981 from over $100 billion the prior year. In 1982, world trade actually <u>declined</u> by 6 percent.

The importance of exports to LDCs simply isn't adequately understood in the U.S. or among European and Japanese policymakers. Fully 8.4 percent of U.S. GNP is devoted to exports and 27 percent of that goes to LDCs. Putting those figures together, 2.7 percent of our total GNP is on the line here. That is equivalent to the economies of Greece and Portugal <u>combined</u>. How many jobs is that?

Europe and Japan are even <u>more</u> dependent on such exports. Where we have primarily Latin American debtors, they have Asian, African, Eastern European and Latin American debtors. 3.3 percent of Europe's GDP and 4 percent of Japan's GDP depend on exports to LDCs. And their portions of the $500 billion of LDC debts are larger in relationship to their economies than our part is to our economy.

<u>Economic Obligations</u>

Thus, it is not just the LDCs who face the debt problem. The whole world does. No country can isolate itself from the problem, and no trade minister can afford to assume that the finance minister can handle it alone. We are all in this together and we all have responsibilities to ourselves and obligations to each other in working through the problem. I'm not talking just about obligations in a legal sense; I am talking about the kinds of policy obligations that countries, developed and developing alike, should follow in their own self interest -- because in the long-run they will profit from adhering to them. They should also accept these obligations because they help to strengthen the international economic system.

LDC Debtor Obligations

First, let's look at the developing nations obligations. It is a fact of life that these countries will not be able to tap unlimited amounts of financing to help them adjust; even if such financing were now available, it certainly would not be feasible to keep adding to LDC debt as was done in the early 1980s. Therefore, they need to develop sustainable economic policies that will create the economic conditions to foster stable growth and development. External financing is not a substitute for such adjustment policies.

It is the LDCs obligation to begin the adjustment process before the crisis stage, before their reserves have fallen to zero. It is in their own best interests to do so. The adjustment process is much smoother if it is not conducted on an emergency basis. Of course, not everyone has lived up to its obligation.

For well-known political reasons Mexico didn't adjust in time. But as a result, the inevitable crisis only deepened their problems.

-- Real economic growth, which had averaged over 8 percent between 1978-1981 fell near zero last year.

-- Inflation doubled from 28 percent in 1981 to 57 percent in 1982 (100 percent on a December/December basis).

-- Capital flight in 1982 was more than $6 billion, following on the heels of an $8 billion outflow in 1981 (most of it toward the end of the year).

Further examples of countries not adjusting in a timely fashion exist today. Venezuela has only just now announced plans to begin its austerity program. Indonesia isn't adjusting as it should. Neither is Nigeria. Brazil, even after a crisis, persists in export subsidies that increase their deficits which must be financed externally.

What are the adjustment policies I'm talking about? On the domestic side, they include eliminating politically popular subsidies, setting and sticking to realistic expenditure goals. On the international side, these countries should avoid protectionist trade solutions, including the use of export subsidies. They need a set of structural adjustment policies that will allow them to shift further away from closed economies based on import subsitution toward more open economies based on export growth, comparative advantage, and diversification. In today's world, economic isolation is no more feasible than military isolation.

A second obligation of the LDCs is to take up their responsibility to uphold the international economic system, in particular the international trade system embodied in the GATT.

This includes the development of new international rules and principles where appropriate. For example, more liberal rules in foreign investment are needed. Governments in both developing and developed countries recognize the important contribution that foreign private capital flows can make to their economies. They bring technology, education, and create domestic jobs. However, in many instances too many LDCs' policies toward foreign investment don't reflect this fact. Many countries do offer incentives to promote investment, both foreign and domestic. However, many of these same governments also impose significant restrictions and conditions on foreign investment in their countries. The measures employed range from outright prohibitions to protect selected non-security related sectors to onerous performance and other requirements aimed at forcing domestic control, local content, or exports. Again, Mexico provides an example of questionable past policies. Does anyone doubt that if Mexico had had more modern rules inviting foreign investment that its economy today would be more diverse, less dependent on oil, and that both unemployment and underemployment would be lower?

Markets that should be very appealing to investors because of their location, high growth potential, or their relative costs are much less appealing because of short-sighted, politically motivated, internally focused policies. And less investment is forthcoming than might be the case if these measures were not imposed.

Enlightened investment policies are in the LDCs own best interests as well. The foreign investment provides another source of foreign exchange in the short run, and provides the scarce capital and technical expertise needed to develop industrialized exports in the longer run.

This Administration believes that international rules or guidelines relating to foreign investment, akin to those for trade, need to be developed. We have attempted to focus attention of various institutions, on egregious investment practices with some success.

Obligations of Industrialized Countries

The OECD countries also have obligations -- and those obligations are again in their own long-run best interests. For their own part, the OECD countries must:

-- Adopt policies that support sustainable non-inflationary growth. This is essential for world economic recovery, if coupled with policies to allow for expansion of markets for LDC exports. It is vitally important that the potential presented by the prospect of OECD recovery not be thwarted by an increase in protectionist pressures within the OECD. The ability of industrial nations to maintain open

markets will directly affect LDC ability to repay debts and resume domestic economic growth.

-- Ensure that adequate official financing is in place, in particular from the IMF.

-- Make available necessary bridge financing, such as that provided bilaterally and multilaterally under the auspices of the Bank for International Settlements (BIS).

-- Continue to encourage appropriate private bank financing in support of LDC adjustment programs. Such lending is important for the developing countries, as well as for the banks themselves, who will not profit from a weakening of the international monetary system.

Just as there are examples of LDCs not living up to their obligations, there are examples of OECD countries not living up to their obligations -- for example, Japan. The Japanese are not meeting their obligations as a world economic leader. They have benefited, perhaps more than any other nation, from the world trading and finance system -- yet they are the most reluctant to accept the associated responsibility. The Japanese have the most closed trade system and are the most reluctant to support the financing needs of the LDCs. Their trade and finance policies are linked, but linked in a way to abrogate their obligations and confine them to a self-imposed secondary role in world economic leadership.

I might point out though that we in the U.S. are not perfect either. We have gone further to meet our financial obligations to the LDCs than our trading partners. Yet, we have placed quotas on textiles, apparel and sugar. Our average tariff on dutiable goods exported by developing countries (excluding oil) is in most cases larger than the average tariff on goods exported to us by the developed countries!

To date, most protectionist measures in the U.S. have been defeated, perhaps because most of the trade impact has been on the export side, and exporters are less prone to call for protection than import-competing sectors of an economy. As debtor LDCs shift from import reduction to export expansion, however, protectionist pressures will be more likely.

Secretary Regan's Trade-Finance Link Initiative

Several months ago Secretary Regan called for the major nations to begin taking a hard look at the existing international financial and monetary systems. He indicated that they should focus on the development of more streamlined and improved approaches to future international economic and financial

challenges. As a follow-on to that initiative, Treasury Secretary Regan has proposed a joint meeting of trade and finance ministers, to give ministers a chance to discuss the current international economic situation from both a trade and a finance perspective. The joint meeting, the first of its sort, is scheduled to take place directly after the OECD Ministerial May 9-10.

As a first step, the Secretary, along with U.S. Trade Representative Bill Brock, has invited the trade and finance ministers from the Summit countries, as well as the heads of several major multilateral institutions. The meeting was purposely kept small in order to keep discussions informal and constructive. If this first meeting is fruitful, the United States will suggest that it be expanded to include more of the developed countries. We will also want to invite key developing countries to some future meetings as soon as possible.

At the May meeting, the trade and finance ministers will begin exploring the implications of some of the problems I've discussed tonight. We will suggest some solutions along the lines I have discussed -- avoidance of protectionism, encouragement of liberalization of LDC trade measures, and stable economic policies. Other proposals which should be explored are greater GATT/IMF/World Bank cooperation, and ways of encouraging North-South trade.

I'm optimistic about this meeting. At the very least, Secretary Regan will have accomplished a great deal just by getting the trade and finance ministers from seven countries to sit down in the same room together. They have a lot in common that they may not be aware of. And, they have more in common with their peers in the developing world than many would expect.

Interdependent Obligations

Earlier I mentioned the mutual or interdependent obligations of developing, advanced, and industrialized economies. Through their banking system and private investment capital, the industrialized economies provide the external financing needed to foster economic growth in the developing economies. Conversely, the developing countries have an obligation to provide a hospitable environment so that the financing can create jobs and exports from their own economies.

That these types of obligations are interdependent is nowhere better seen than in the case of industrial economies protectionist policies and developing countries' export subsidy policies. With 30 million unemployed workers in the OECD countries today, the political pressures to restrict imports from the developing countries are enormous. Yet, developing countries make it more difficult for OECD trade ministers to resist these pressures when the developing country subsidizes its own exports to the industrialized countries and finance the additional budget

deficit created by export subsidies with additional bank debt borrowed from the industrialized countries. The recent history of several Latin American countries provides illustrations of how their domestically oriented export promotion policies serve to undermine the political commitment of the industrialized countries to provide open markets.

Failure of the trade and finance ministers to come to grips with these anomalies weaken the international economic system that is the only hope for sustained joint real growth for all the economies of the world.

Future Outlook

I'm also fairly optimistic about the future of the world economy. Provided the developed and developing countries keep in mind their obligations to themselves and to the international economic system, there are indications we are entering Phase II of the adjustment to the LDC debt problem. In the short-term, the effect of stabilization programs and debt repayment schedules will keep growth rates and trade flows of developing countries low. However, several factors will lead to higher growth and the recovery of trade flows by 1984-85:

1. Longer-term effect of LDC adjustment efforts;

   -- For example, Brazil posted an increase in its trade surplus of $514 million in March, up from $175 million in February. This is Brazil's largest monthly surplus in recent years although results for the first quarter are below its targets.

2. Projected pick-up in OECD growth rates;

   -- We expect an average real growth of 2-1/2 percent in 1983; while the recovery will be low by historic standards, it should be better balanced and less likely to rekindle inflation than previous recoveries.

   -- The aggregate OECD current account should shift into surplus, the first since 1978.

   -- Growth in the OECD will lead to an increase in the demand for LDC export products.

3. The increase in demand should boost commodity prices, improving the LDCs' terms of trade; prices of copper, tin, and rubber are most likely to experience increases.

4. <u>Lower oil prices;</u>

-- Lower prices should have a direct effect on LDC import bills; for example, it is projected that a hypothetical 20 percent reduction in oil prices could reduce the projected oil bill of non-oil LDCs from $76 billion in 1983 to $61 billion. This would amount to a direct savings equal to 1 percent of their aggregate GDP. Obviously, there will be differences in the effects amoung countries, with Mexico and Venezuela being affected adversely.

-- Lower oil prices will also reduce the inflation rate in most countries.

5. <u>Lower interest rates</u>.

-- LIBOR has dropped about 25 percent on average since last year (from 13.5 percent to about 10 percent).

-- The developing countries as a whole (including OPEC, but excluding European countries such as Turkey and Yugoslavia) experience a savings in interest payments of roughly $2 billion per 1 percent drop in interest rates. Thus the recent decrease in the LIBOR rate has saved the LDCs $6-7 billion.

Concrete signs which bear out my optimism have already begun to appear. We expect a reduction of the combined current account deficit of the LDCs in 1983, although there will be individual problem countries. The debt service ratio of the non-OPEC countries should be 23 percent in 1983, down from 25 percent in 1982.

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How does the future look if LDC and OECD countries do not live up to their obligations? I could see a downward spiral where protectionism leads to decreased trade, which leads to greater financial difficulties, which leads to greater protectionism, and so on. In the 1930s a protectionist spiral caused international trade to fall by some 60 percent. Economists don't know how much the Depression made the spiral deeper versus how much the spiral made the Depression deeper. Frankly, I don't want the 1980s to provide the chance to find out.

Conclusion

To conclude, I would like to reiterate:

-- The interrelationship of trade and finance issues has been ignored for too long; it is unfortunate that the severe debt servicing problems of many LDCs has had to serve as a catalyst to remind us of the importance of this linkage, but let us profit from this experience to set the ground for greater coordination of policies in the future.

-- There are reasons to be optimistic about the future of the international economic system if countries follow policies designed to foster their long-term economic self interests not short-term political expedients.

-- There is a need for continued financing (IMF, private banks, and, in selected cases, government/central bank bridge) in support of LDC adjustment.

-- There is a need for the developed countries to keep their markets open to the exports of the developing countries, and for the developing countries to avoid protectionist measures in the adjustment process.

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Some people have described this whole issue in terms of a triangle; with trade, finance and economic growth being the three points. But I suggest that the relationship is actually more complex than that. Perhaps the more appropriate analogy is a circular form consisting of so many connections that one can hardly discern a break point.

In the physical world scientists are learning that DNA, the base of all genetic information in the world, is patterned on a complex double helix arrangement with genetic strands coursing through the microscopic system.

In economics we also see a tightly woven series of interrelationships where all elements of the trade-finance cycle affect one another. Yet in the world of economics, where the threads of trade, finance, growth and security are woven just as tightly, the governments of the world persist in dividing these functions like so many amino acids. If we don't successfully recombine as in the DNA molecule, life won't come to an end. But it could sure be a lot worse for a large portion of the four billion human beings on this planet. It is now high time that our institutional and public policy arrangements operated more in accordance with the reality of these interrelationships.

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
EXPECTED AT 9:30 A.M.
FRIDAY, APRIL 15, 1983

STATEMENT OF MANUEL H. JOHNSON
ASSISTANT SECRETARY FOR ECONOMIC POLICY
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
WASHINGTON, D. C.

Mr. Chairman and Members of the Committee:

Thank you very much for this opportunity to be with you today to present the views of the Treasury Department on S. 42, the American Gold Eagle Coin Act of 1983.

The bill before us today is similar to one I was asked to testify on during the last Congress before the House Sub-Committee on Consumer Affairs and Coinage. Both bills are related to the work of the Gold Commission, whose report was transmitted to the Congress on March 31, 1982. The Gold Commission was directed by the Congress to assess the role of gold in the domestic and international monetary systems, and to study U. S. policies related to gold.

Essentially, the bill provides for the minting of gold coins, which would recreate the opportunity for Americans to acquire and use gold coins minted by the United States Treasury. Recreating that opportunity is a logical follow-up to the rights restored by P.L. 93-373 to American citizens in 1974 to buy, sell, and own gold in any form and by P.L. 95-147 in 1977 allowing them to enter contracts specifying payment in gold. The U. S. Treasury

R-3031

did not have the authority to mint and issue gold coins for almost 50 years. The authority was re-established in 1982 with the passage of the Olympic Commemorative Coin Act, P. L. 97-220, which provided for limited issue of a specific gold coin. The bill we are considering this morning would authorize a general issue of gold coins which would satisfy public demand, both present and future, for an American gold coin.

The Treasury supports the basic elements of the American Gold Eagle Act even though it still contains some provisions which concern us. We agree the coins should be specified solely by weight, without any dollar face value, and the coins should be sold at the market value of their gold content plus a margin to cover the costs of minting and distribution. There is a demonstrated worldwide demand for coins sold under these conditions. These coins could be used by private citizens as a store of value and, where mutually acceptable, as a medium of exchange. The absence of Treasury obligation to buy and sell the coin at a specified price, however, avoids any implication that what is being attempted is the re-establishment of an official price of gold.

We also concur with issuing the coin without legal tender status. If the coins have legal tender status, private creditors would be compelled to accept them as payment for debts, and the Treasury as payment for tax liabilities. The fluctuating market value of gold would necessitate creation of a complex system for setting and announcing a fluctuating legal tender value on a continuous basis, with attendant formidable problems of operation. Instead the intent of the bill, as we interpret it, is to provide the private sector with an alternative and not to impose a dual money system on the economy.

The 1908 twenty dollar gold coin was among the most attractive and widely distributed gold coins ever minted by the United States. The use of the figure of Liberty from this coin, along with the great seal of the United States, is expected to enhance the popularity of the American Gold Eagle. The minting of two sizes containing one ounce and about one-half ounce of gold, equivalent to the old $20 and $10 gold coins, is also appropriate. For technical reasons, however, we would like to recommend slight changes in the language of section 402, (a), (b) and (c), specifying physical characteristics of the coin.

The proposed legislation calls for the American Eagle to be distributed not later than July 1 of next year. Members of the Committee are, no doubt, aware that under present legislation (P.L. 97-220 and P.L. 95-630), the Mint will be minting three different gold pieces in 1984 -- a $10 coin containing

approximately one-half ounce of gold and commemorating the Olympics, and one ounce and one-half ounce gold medallions -- involving up to two million ounces of gold. Minting and distributing an additional 500,000 ounces or more in American gold "Eagles" and "Half Eagles" next year, as required in S. 42, would add to competition among these different gold pieces and strain the Mint's productive capacity. This can be avoided by delaying the issuance of the Eagles for at least six months until January 1, 1985, when the authority to produce the other U. S. gold pieces is due to expire. We would not wish to see either of the existing gold programs terminated prematurely, since that would needlessly disturb public expectations, as well as minting and distribution commitments.

Our preferred method of distributing the American Eagle coins is through dealers and through auctions. Provisions in the bill appear broad enough to provide Treasury with sufficient flexibility to utilize those channels as well as alternative distribution systems if that is deemed preferable.

The method of distributing the coins is likely to influence the precise method of establishing their price when sold by the Treasury. We believe that the pricing provisions, as proposed in Section 404, are unnecessarily restrictive. For example, selling through auctions will not be possible if prices must be based on a published formula and the previous day's 4:00 p.m. COMEX gold price. More important, though, the provisions could be costly to the Treasury if on a given day the market price were significantly in excess of the previous day's closing COMEX price, as has frequently been the case, creating opportunities for risk-free profits to those who purchase gold coins that day. We feel, therefore, that greater flexibility in pricing is needed to deal with rapid changes in gold prices. Accordingly, we propose that the price be determined by the Secretary of the Treasury, based on the current market price, with the frequency dictated by circumstances and the system of distributing the coins.

The most controversial issue associated with proposals for the issuance of American Eagles relates to their tax treatment. The issue was among the most complex confronted by the Gold Commission. In part, resolution of the tax issue was rendered more difficult by the diversity of reasons behind the large majority of the Commission in favor of providing a gold bullion coin. Several Commission members felt a gold coin should have the opportunity to develop as a circulating means of payment, some favored a coin to compete with foreign coins, like the krugerrand, some favored a greater role for gold in the monetary system, and some held no strong view of the function of the gold bullion coin.

Because of the lack of agreement over function, there was no agreement over the specific characteristics of such a coin; specifically, whether it should have legal tender status, should be minted in unlimited amounts, should be redeemable by the Treasury for dollars, or should be exempt from capital gains and sales taxation. The Commission finally adopted recommendations that the coin not have legal tender status, that the Treasury should mint the coins from existing gold stocks, subject to certain limits, and that they should be exempted from capital gains and sales taxes.

The arguments behind the legal tender and tax recommendation have two facets. One was a general view that the government should not be in a position of legally obligating people to accept payment in assets with fluctuating market value, which would be the case if the gold coins were given legal tender status. At the same time, however, it was argued that impediments to the use of the coins as a medium of exchange on a voluntary basis should be eliminated, and this led to the recommendation for tax exemption.

In his position as Chairman of the Commission, the Secretary of the Treasury supported these recommendations and the gold coin proposal in general. Still, some of the issues were not studied exhaustively by the Commission, and the ambivalance of its own recommendations indicates there remain a number of serious considerations which need to be explored more fully by the Congress.

The tax area, in particular, raises several difficult issues which may require further examination, and we welcome these hearings as a vital opportunity to provide the Congress with further information and analysis. If we are to provide gold coins which could be used as a medium of exchange by the American people, an argument in favor of exemption from taxation logically follows. The bill provides that gains or losses from the sale, exchange or other disposition of the coins authorized by the bill shall not be recognized as a capital gain or loss under any Federal, state or local income tax, and that any ownership, purchase or sale of such coins shall be exempted from Federal, state and local sales, personal property, and excise taxes. Thus, the bill incorporates the basic recommendation of the Gold Commission making transactions in such coins free from taxes and the Treasury Department strongly endorses the tax exemption for the American Eagle.

There are many sound economic arguments which could be made in favor of the Gold Commission's recommendation as reflected in the tax provisions of the bill before us. However, the policy on taxation raises a number of ancillary tax issues which remain unresolved and which need to be considered more explicitly.

Tax exemption of transactions in the American Eagle Gold Coins implies that all non-interest bearing claims on these coins -- certificates of deposit, warehouse receipts, and promissory notes -- should be accorded the same tax treatment as the coins themselves. If not, it would necessitate having the owners of such claims go through the totally meaningless motions of redeeming their claims in gold coins and proceeding with a tax-free exchange. There is no difficulty in interpreting what the bill implies for treatment of an exchange of gold coins for forms of property other than paper currency. Acquisition of such property would be subject to state and local taxes as if the payment were made in paper money. If a capital asset is acquired in an exchange for gold coins, the applicable tax basis would be the market value of the coins at the time of the acquisition. The initial dollar price at which the coins were purchased would be irrelevant for the determination of the tax basis for the asset. Interest received in gold coins would be taxed on a dollar value at the time of receipt and for tax purposes would, therefore, be treated analogously to income received in foreign currencies.

Although the bill does not explicitly provide for these results, we believe they are an accurate reading of the implications of the basic policy choice contained in the bill. However, the bill leaves unanswered questions about the appropriate tax treatment of interest bearing claims on gold coins (such as bonds or futures contracts payable in gold coins), the taxation of dealers in these coins, the determination of the appropriate tax bases for gold coins in estates and deferred gifts, or the tax treatment of exchanges of American Eagles for other gold coins or gold bullion.

The bill also sidesteps the question of tax treatment of bullion for coin swaps with the Treasury. We believe the bill should be explicit in denying tax exemptions for such swaps. Bullion tendered to the Treasury in exchange for coins should be considered for tax purposes as sold for dollars at the daily price used for pricing the coins, and the resulting capital gain or loss should enjoy no escape from taxation. If this is not done, the bill would have the effect of retroactively exempting from taxation all heretofore unrealized capital gains that have accrued to gold bullion owners. Apart from the revenue losses this would involve for the Treasury, we feel very strongly that such an outcome would be undesirable from the point of view of public policy.

The bill provides for purchasing American Eagles from the Treasury by payment in dollars as well as through an exchange of gold bullion and U. S. or foreign gold coins and medallions, which in turn could be used for the production of additional coins. On a technical level, we offer no objections to the

latter method (Section 405), if the provision is desired by the Congress. We want to state, however, that we would wish to pass on to the purchaser additional expenses, such as melting, assaying, transportation, etc., depending on the specific form of gold tendered in exchange for American Eagles. We would plan to designate only a small number of Mint facilities to handle such exchanges.

The Treasury, of course, regards the U. S. gold stock as part of our national patrimony and of value as a precautionary asset. However, the proper size of the gold stock is the subject of a wide variety of views on which there was little agreement on the part of the Gold Commission. The members agreed that a "zero stock" is not the appropriate size, but that no particular level for the gold stock is necessarily "right." The Commission opposed auction sales which were intended to dispose of the Treasury holdings over some stated period of years but supported the view that the Treasury should retain the right to conduct transactions in gold bullion at its discretion, provided adequate levels are maintained for contingencies. It is in this spirit that we accept the need to specify some limit on the total amount of gold which shall be minted into coins.

The provision in the bill being considered by this Committee calling for the striking of at least five hundred thousand troy ounces of fine gold of coins in each of the weights authorized by the bill raises another issue. While we appreciate the intent of Congress to encourage the provision of adequate supplies during the first year of issue (an objective which we share), it is felt decisions concerning specific production rates should be left to the discretion of the Treasury, to be made with due consideration of the initial public demand and production constraints.

Turning to other aspects of the bill, we recognize the main thrust behind proposals for the introduction of a U. S. Gold Coin is to provide a form of money which people can hold and use as an alternative to money expressed in dollars. Undoubtedly, the experience with inflation in the United States and public dissatisfaction with the performance of fiat money as a reliable store of value have contributed to the feeling of a need for such a monetary asset. The government's monetary monopoly can be justified only if it is exercised prudently. In a sense, such a new form of money asset would provide a kind of thermometer to signal monetary authorities concerning the collective public judgment on how responsibly the government's monetary monopoly is being used. The Treasury would not look unfavorably upon a mechanism to perform this function.

The proposal to mint gold coins is not a move toward adoption of a gold standard. There would be no official price of gold, nor would the Treasury assume any commitment to convert privately or officially held dollars into gold bullion. There would be no connection between U. S. gold reserves and monetary policy. There could be, however, useful pressure on monetary discipline related to the amount of U. S. held bullion used for minting coins if the public were to treat these coins as an alternative medium of exchange in the event the government should ever reverse the current policy of restoring price stability. Establishing the pressure of such an indicator is, I believe, the intent and expectation of the proponents of this legislation.

The main point to be made is that the public's appraisal of the management and performance of the U. S. economy would largely determine the demand for gold coins. The effect of this demand on the U. S. gold stock is not predictable since the Secretary of the Treasury could, under existing authority, determine that the stock should be replenished through Treasury purchases. Moreover, even though there is an upper limit specified in the bill on the amount of United States gold to be minted, there is no assurance public demand will be as great as the supply allowed by the bill. It must be kept in mind that our stock presently totals 264 million fine troy ounces, equivalent in value at current market prices to around 113 billion dollars. By comparison, annual U. S. imports of gold coins currently average about three million ounces.

In conclusion, the proposed legislation calling for tax exempt U. S. Treasury minted gold bullion coins warrants our qualified support. There remain some issues which need further exploration in the tax area, and we would be pleased to provide the Committee with our written suggestions for a number of technical modifications in the bill. These hearings provide an excellent forum for full consideration of the basic thrust of the bill as well as the related technical issues, and the Treasury would be pleased to work closely with the Committee in resolving any remaining problems.

TREASURY NEWS

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Statement of the Honorable Manuel H. Johnson
Assistant Secretary of the Treasury for Economic Policy
Before the
Joint Economic Committee
Washington, D.C.
April 15, 1983

Economics of The Natural Gas Market

Mr. Chairman and members of the Committee;

It is a pleasure for me to be here today to discuss with you the natural gas deregulation question.

Background

Public policy has had a major impact on the structure and evolution of the natural gas industry. The Federal Power Commission (FPC) was originally given the authority to regulate interstate natural gas transportation and sales for resale in 1938. The FPC was required at that time to review rates and charges to determine whether they were "just and reasonable." The FPC did not interpret this authority as requiring oversight of wellhead pricing.

In 1954, in response to a Supreme Court decision (The Phillips Case), the Federal Power Commission assumed the authority to regulate the wellhead prices of natural gas which was sold across state lines. This action divided the natural gas market into two distinct structures: (1) an interstate market in which wellhead price ceilings were imposed, and (2) an intrastate market in which the price was primarily determined by market forces.

The implication of this decision was becoming evident during the early 1970's when the unregulated price of intrastate gas rose

above the regulated price of interstate gas. As a result, gas producers tended to shift their output increasingly to the intrastate market. However, it was not until the mid-1970's, the oil embargo, and the dramatic increase in the price of oil, that the full implications of this dual market structure became clear. Since natural gas is a close substitute for oil in many uses, especially when used as a fuel for boilers by industry and utilities, the price of natural gas in the intrastate market rose substantially as users shifted out of high-priced oil into natural gas. As the price difference between the two markets increased, the amount of new gas dedicated to the interstate market declined and, by the mid-1970's, shortages developed.

In the late 1970's, the President and the Congress realized that the existing institutional arrangement regarding the interstate market was leading to increasingly serious shortages of crisis proportions. Thus, the Natural Gas Policy Act (NGPA) was enacted into law. This Act had two primary elements. First, it imposed Federal price regulation on the intrastate market, thereby integrating the interstate and the intrastate markets and, second it provided for a scheduled phasing in of price increases in order to avoid an abrupt increase in prices, yet achieve ultimate decontrol of prices for certain categories of natural gas. This legislation represented a compromise between groups who wanted to alleviate the shortage in the interstate market by simply expanding public jurisdiction over the total market and groups who wished to solve the problem by removing price controls from the interstate market.

Unfortunately, the NGPA has several flaws. Perhaps the most serious flaw is the linkage of natural gas prices to a target market price of oil based on a forecast for 1985. This provision thwarted the intent of the legislation if the price of oil behaved differently than forecast. And indeed that is exactly what has happened.

Changing world energy conditions quickly made the plan obsolete. When the legislation was passed in 1978, the price of oil was about $15 per barrel. The increases in new gas ceilings scheduled by the legislation were designed to bring the prices of new gas close to the BTU-equivalent price of oil by the time wellhead prices were to be completely decontrolled in 1985. The dramatic increase in the price of oil during the Iranian crisis in 1979, and further subsequent increases, made the prospect of a smooth transition less likely, and in fact there has been considerable concern in the past few years that these developments would result in a dramatic jump in the price of gas when it is partially deregulated in 1985.

Since 1980, the United States and other world economies have been in recession, although the U.S. economy is now on the road

toward recovery. The supply of oil has exceeded demand, which has fallen from previous highs. As a result, crude oil prices have declined in both nominal and real terms since the first quarter of 1981. There is considerable agreement that a market clearing price for natural gas upon decontrol would be much lower than had been anticipated just two years ago. Thus, there are now mixed opinions on whether or not and by how much, if any, gas prices would increase when partial decontrol takes place. Indeed, the weight of the evidence indicates that market clearing prices for natural gas are now below current regulated prices in many areas and that current prices would actually decline in real terms if existing contracts between producers and pipelines are renegotiated and oil prices remain at current levels in real terms.

The Department of Energy has estimated, for example, that the Administration's natural gas proposal would achieve a nearly 4 percent decline in the real average wellhead price of natural gas in its first year of operation. Indeed, this estimate assumes oil prices that could easily prove to be too high. A more plausible oil price forecast utilized by DOE yields a real average wellhead price decline of over 11 percent in the first year of decontrol.

Market Characteristics

Unlike the oil market in which contracts are short-term and whose analysis can be usefully approximated by a spot market, the natural gas market is characterized by long-term contracts. Many of these contracts include various types of escalator clauses and requirements that pipelines pay for a high percentage of the deliverable gas, whether or not that gas is actually taken in subsequent years. The necessity of these "take-or-pay" contract clauses stems from several factors: pipelines are required to contract for certain gas reserve levels in order to meet anticipated future demand, and their large fixed costs have encouraged the pipelines to be highly concerned about the continuity of supply. Producers are also interested in long-term contracts, in order to protect their investment by ensuring that pipelines cannot arbitrarily walk away from contracts to buy gas.

Gas prices have escalated sharply in recent years in part because they had been held so far below market clearing levels, but also in part because of the interaction of provisions of both the NGPA and private contracts. Contract clauses that stipulate wellhead prices as a function of government controlled prices have caused NGPA price ceilings to function, in many cases, as price floors. Thus, as those ceilings are gradually lifted according to NGPA formulas -- often at rates in excess of the general rate of inflation -- wellhead gas prices are driven upwards, regardless of the current state of demand or the current trend in substitute oil prices.

Past controls may also have encouraged the writing of very high percentage take-or-pay clauses. With effective price ceilings resulting in a situation of excess demand for gas, pipelines were precluded from competing on the basis of price and had to resort entirely to offering producers higher levels of guaranteed demand -- that is, higher percentages in take-or-pay contracts -- in order to obtain secure sources of gas supplies.

Pipelines and consumers are now bearing the burden of these various contractual arrangements which, as events would have it, have not turned out to be in their best interests. As gas prices have escalated sharply, even in the face of declining demand, some users are starting to switch from gas to oil. Because of high take-or-pay contractual obligations, however, some pipelines have found it necessary to take the most expensive gas supplies and shut in the less expensive supplies that are available. They must pay for the contracted percentages of both types of gas but can only pass on directly the cost of gas actually taken. Obviously, most producers of this expensive gas are reluctant to let the pipelines disregard this take-or-pay contractual obligation. Regulation, therefore, has had the perverse effect of driving gas prices higher at a time when falling oil prices and competition should be leading to lower gas prices.

In the oil market it was expected that once the price of oil was deregulated, domestic market prices would adjust to the world market price and, in fact, that is what happened. In contrast, in the natural gas market, even if complete deregulation were implemented without renegotiation of contracts, many different prices could coexist because of contracts that were negotiated at different points in time with different price provisions.

The incremental pricing provisions of the NGPA have also been counterproductive. Designed to shield residential customers from price increases by shifting the costs of expensive gas to industrial users, these provisions have induced industrial users -- the natural gas consumers who may most easily substitute alternative fuels for gas -- to turn away from gas. As a result, residential customers have been forced to bear a greater percentage of the fixed costs of producing and delivering natural gas than they would have otherwise.

Long-term contracts may, by themselves, lead to situations where average gas prices differ from those prices being paid on new contracts. The existence of price controls exaggerates this effect by limiting the extent to which automatic contract provisions may allow prices for gas being sold under existing contracts to adjust to current market conditions. Also, where the prices of some types of gas -- deep gas in the case of the NGPA -- are not controlled, the legislation causes producers to search for and develop these high cost sources of supply, rather

than more easily obtainable supplies that, because of controls, yield a lower return. Pipelines with access to significant supplies of cheap, price controlled gas, on the other hand, are able to bid up the price of new, high-cost, uncontrolled gas to levels significantly above the average price of gas. This is because they are able to "roll in" or average the high-priced gas with the cushion of controlled or old low-priced gas and still market their product at competitive prices.

Implications of Regulation and Deregulation of Natural Gas

The primary consequence of the regulation of natural gas is an inefficient use of economic resources. In prior years, when the price of gas was kept below its opportunity value, i.e., its free market price, there were two effects. First, present consumers of natural gas, who for historic or other accidental reasons had access to comparatively cheap energy, tended to use it in an economically inefficient manner. Other potential users, because of the price controls, were unable to secure access to the resource due to the lack of adequate supplies of controlled prices. Second, regulation has resulted in less supplies than would be optimal because of reduced profit opportunities. In addition, under NGPA, regulation has resulted in a mix of supplies that is more costly than necessary. For example, controls encouraged producers to search for deep gas which was completely deregulated under NGPA and to neglect other types of gas. Price controls made it uneconomical in many instances to develop and market regulated gas; thus, producers have concentrated on high-cost gas development even though there may be plentiful reserves of lower-cost gas to be developed.

Administration Proposal

Although the NGPA was well intended, it was flawed and has produced distortions and inefficiencies. The perpetuation of this situation does not serve the best interests of the nation and must be corrected -- by moving toward an environment where market forces determine demand, supply and prices. Because weak gas demand and price inflexibilities arising from the NGPA have resulted in excess supplies of natural gas while oil prices are declining, there may never be a better time to start this transition.

In the years before NGPA, wellhead controls only on gas destined for interstate commerce resulted in artificially low prices and produced depressing effects on exploration and drilling activity for the interstate market. This regulatory environment, along with greater demand for gas due to OPEC oil price increases and harsh winter weather, created a situation where the demand for gas exceeded the supply that producers were willing to make available. In effect, the controlled or administered price of gas was below the equilibrium or market clearing price. The resulting supply shortages led to passage of the NGPA.

After the NGPA was enacted certain conditions changed dramatically, leading to the situation that exists today. Natural gas prices have been rising as a result of scheduled price escalation under the NGPA and various contractual arrangements between producers and pipelines in spite of the fact that the demand for gas has been falling. This result is partly because of depressed economic activity and partly because the price of oil has declined in both nominal and real terms since 1981. In addition, as the price of gas rises, the demand for gas is reduced. Thus, gas price escalation has occurred in spite of declining demand, due to the workings of the NGPA. At present, the price of natural gas is most likely being held above its equilibrium or market clearing price, a situation that is consistent with current excess supply conditions. If there were excess demand, and we know there is not, one would expect the price of gas to be below the market clearing price, as it was prior to the enactment of NGPA.

Under the Administration's proposal, wellhead prices of natural gas in any new or renegotiated contracts between producers and pipelines would be allowed to function under their own terms. There are incentives for producers and pipelines to renegotiate existing contracts to reflect current market conditions. For contracts that are not renegotiated, there would be a gas cap determined by the average price for gas in newly negotiated and renegotiated contracts. After January 1, 1985, but before January 1, 1986, any contract not renegotiated could be broken by either party. If a pipeline is a party to an abrogated contract, it would be obligated to facilitate transportation of gas to another purchaser. Take or pay requirements in contracts could immediately be reduced to 70 percent, releasing any gas so affected to be sold to another party. Escalator clauses in contracts that provide for automatic increases in the gas purchase price of controlled gas would be limited so that prices could not rise higher than the gas cap. This limitation would begin four months after the bill is enacted and expire on January 1, 1986.

Consumers would be aided by a provision that would prohibit pipelines from automatically passing through to consumers the cost of gas purchased if the increase is greater than the rate of inflation. Larger increases would have to be reviewed by the Federal Energy Regulatory Commission in a public hearing.

The proposal also would establish a "contract carriage" provision whereby FERC could order an interstate pipeline to transport gas on behalf of any producer and purchaser. This provision would alleviate some of the price inflexibility problems inherent in the current institutional arrangements that rely on long-term contracting.

Finally, the incremental pricing provision under current law would be eliminated, as would the restrictions on gas use under the Fuel Use Act of 1978.

If the Administration's proposal is enacted into law, controls are removed, and contracts are renegotiated or eventually voided, I would expect that natural gas prices would decline to the market clearing price. This assumes the continuation of relatively low oil prices, which I think is a reasonable assumption.

The fall in natural gas prices would reduce the rate of inflation modestly and increase somewhat real economic growth and employment. Also, lower natural gas prices, consistent with lower costs of supply, would result in greater efficiency in the use of energy throughout the economy. Total factor productivity could increase somewhat, and the shift of users from oil to lower priced gas would result in reduced oil imports. Secretary Hodel has testified that oil imports could fall below current projections by 100,000 to 200,000 barrels per day in the first year following enactment of the proposal. At about $30 per barrel, and taking the midpoint of this estimate, the savings in our oil import bill could be as much as $1.5 billion per year.

As economic recovery takes hold, it is possible that natural gas prices could rise in real terms as the demand for gas rises. The magnitude would depend to some extent on what happens to oil prices. If oil prices escalate little or not at all or even decline over the next few years, the demand for gas would not rise as rapidly as otherwise would be the case and natural gas prices, therefore, would not increase significantly. In other words, continued low oil prices would tend to temper natural gas price increases by offering a price-competitive alternative to gas and thereby hold down the demand for gas. It is important to realize that even if economic recovery substantially increases gas demand, and gas prices rise, this situation would also occur under the continuation of the NGPA. Any reimposition of controls in this situation would cause severe shortages.

Implications of Continued Controls

Under current law, i.e., NGPA, I think we can expect natural gas price increases until and probably even after partial deregulation takes place in 1985. The price increases should not be dramatic so long as oil prices do not escalate sharply. Underlying these gas price increases are certain provisions in existing contracts, i.e., escalator clauses, that cause the price ceilings under the NGPA to act as floors that rise with the rate of inflation.

After 1985 and partial deregulation under NGPA, one would expect gas prices to continue rising although not very rapidly. Pipelines would continue to pay high prices for decontrolled gas but they would have continuing supplies of old gas, which would remain regulated and cheap, that they could roll in with this higher priced gas so that average gas prices remain competitive with oil prices. This means, in effect, that NGPA price controls

on old gas after 1985 would continue to subsidize the uneconomic purchase of more expensive decontrolled gas as is now and has been the case since the enactment of NGPA. As supplies of old gas are exhausted, however, there would be less of a cushion to offset this higher price gas.

Windfall Profits Tax

At a time of large budget deficits the imposition of a windfall profit tax (WPT) on decontrolled natural gas will be tempting. Even though Treasury supports a smaller budget deficit, we cannot support a WPT on decontrolled natural gas.

A WPT rests on the notion that, once a well is drilled, all costs have been sunk, and the production rate and production life of the well are fixed. Therefore, according to this notion, any increase in price for the gas being produced from an existing well is pure surplus or windfall and can be taxed without negative supply implications. This, however, is not entirely accurate.

First, while there may be some windfall profits involved, it is impossible to determine the precise amount of these profits. Thus, a WPT would probably take more than the windfall gain, thus providing a supply disincentive. At the other extreme, a WPT probably would not take into account "windfall losses" incurred by some producers -- in some cases, the very same firms earning windfall profits.

As production continues from a gas well over an extended period of time, many things can happen to a well which may cause it either to reduce or even cease its production of natural gas. Water or sand intrusion are examples, as are changing reservoir pressures. Nevertheless, there are a number of actions which can be taken to increase recoverable reserves. These actions, of course, require further capital expenditures. If the price of gas is subject to a WPT the incentive to increase production from decontrol is lessened.

In addition, if a natural gas WPT were to take a form similar to the oil WPT in which even new supplies of gas on the market would be subject to additional tax, the disincentive supply effects would be even more apparent. It follows that the WPT would lower gas supplies along several different production margins, implying higher energy imports and higher gas prices for consumers. The benefits of decontrol on supply would be greatly mitigated.

Another reason for not supporting a WPT is that the revenues may not be significant enough under currently accepted oil price assumptions to justify the expense needed to administer the tax. For example, administering the tax would be complicated by the

large number of contracts between gas producers, processors and buyers. Further regulations would be needed to define, identify and collect the revenue obligations. This, too, would be counter to an important objective of decontrol, i.e., reducing government regulation and market intervention.

Effect on Financial Institutions

Finally, I would like to comment on the effect of gas deregulation on financial institutions. The natural gas decontrol bill should have little, if any, effect upon the banking sector. The only comment we have heard from the banking community concerns the bill's override of existent contract provisions, such as the maximum level on take-or-pay percentages. Companies that specialize in producing deep and other categories of high-priced gas may experience declining gas revenues due to decontrol. As a consequence, such producers could have trouble servicing their loans. However, those incidents would cause significant problems for individual banks only if such banks had concentrations of loans to those specialized gas producers in their portfolios. We anticipate that if such cases exist, they will be rare. We note, too, that the expected deterioration of income of such producers is already occurring. Pipelines have stopped contracting for new supplies at high prices, have negotiated down and walked away from high-priced contracts, and have even reduced take-or-pay purchases across the board on all contracts.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or the Committee may have.

TREASURY NEWS

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DEPARTMENT OF THE TREASURY

STATEMENT OF THE HONORABLE
ANGELA M. BUCHANAN
TREASURER OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

APRIL 15, 1983

Mr. Chairman and Members of the Committee, I am pleased to appear before you to present the views of the Department of the Treasury on S.269, a bill which provides for the disposal of silver from the National Defense Stockpile through the issuance of silver coins. With me today is Kenneth Gubin, the Chief Counsel for the Bureau of the Mint.

If enacted, this bill provides for the issuance of silver coins in two separate series, utilizing 105 million troy ounces of silver from the National Defense Stockpile over a three-year period, commencing in 1984. One coin series would have a face value of one dollar and bear the design of the old "Morgan" silver dollar which was minted between the years 1878 to 1921. These silver dollars would be sold by the Secretary of the Treasury directly to the public and to numismatic coin dealers and retailers for resale to the public. The second coin series would bear a Liberty design and be sold in bulk on a negotiated basis by the Secretary to primary dealers in bullion coins.

The use of a silver coin program, as a method to gradually draw down the GSA stockpile of silver, may have merit; but the success of any coinage program is contingent upon public demand and the ability of the new program to compete with other Bureau of the Mint programs as well as public sector programs.

The bill would certainly meet the requirements of Section 6 of the Strategic and Critical Materials Stockpiling Act, as amended, which requires that stockpiled materials be dispensed in such a manner and form that would:

-- permit no undue disruption of the usual markets of producers, processors, and consumers of such materials;

-- protect the United States against avoidable loss;

-- ensure disposal is used for domestic consumption; and

-- be affordable to most American families.

The Department of the Treasury recognizes that there are valid concerns that prompted the introduction of this bill; however, we have reservations concerning the magnitude of the silver coin legislation and its impact on current Mint programs. In order to meet the intent of S.269 and its genesis, the Omnibus Budget Reconciliation Act of 1981, which authorized the disposal of 105.1 million ounces of silver over a three-year period, the Mint would have to sell, on average, 35 million ounces of silver coins each year in addition to meeting its other mandated requirements. This is a serious undertaking that

requires careful consideration of a number of elements not the least of which are: market demand; pricing factors; the bullion market trends; timing; impact from coins already issued or soon to be issued by the U.S. Government; as well as competition from other nations and the private sector.

The Department of Treasury has several major concerns with S.269 as currently drafted.

Competition with Existing Treasury Coinage Programs

The legislation specifies that the two silver coins will be sold during a three-year period commencing in 1984. This implementation date would place the "Morgan" silver dollar in direct competition with the silver commemorative coins authorized by the Olympic Commemorative Coin Act of 1982. Since the "Morgan" silver dollar would not carry the mandated surcharge associated with the Olympic Coin Program, the lower price for the "Morgan" dollar could undermine our market for silver Olympic Coins. Therefore, the Department of Treasury recommends that, if enacted, this legislation designate 1985 as the year of implementation.

Size of the Coin Program

The proposed legislation sets aside 15 million ounces of silver for the "Morgan" silver dollar, an amount which will provide approximately 19.5 million silver dollars. If an extensive marketing effort is undertaken, our experience indicates that the sale of this number of coins may be feasible. However, the range of 12 to 16 million coins is far more realistic.

A similar program in which the Bureau of the Mint is presently involved -- the George Washington Commemorative Half-Dollar -- has realized sales of 6.2 million coins in the first year. However, only ten million silver half-dollars are authorized to be minted, and our sales expectations for the remaining coins are that they will move at a much slower rate than we have experienced so far. Having three different dates appear on the "Morgan" silver dollars will help to alleviate a fall off in sales over the three-year period, but we would expect that the second year sales will not be as successful as the first.

As for the 90 million ounces designated for the "Liberty" bullion coin, this is a major undertaking that is unprecedented in Mint history. There is no comparable coin on the market, therefore, demand is difficult to predict without careful research. In order to establish a level of demand, it is important that research be done by an independent marketing organization to determine if a demand exists in this country for this product, what the size of the demand is, and what an acceptable price would be. The Department recommends that such a study be undertaken prior to implementing this part of the legislation.

Pricing

It is the opinion of the Department that the pricing provisions in the bill are unnecessarily restrictive and that the Secretary of the Treasury should determine the price. If, for instance, a competing coin is on the market when the coins proposed in this legislation are minted, the pricing structure proposed may thwart the Department's efforts to successfully market these products. This is especially the case with the "Liberty" bullion coin.

If this legislation were to become law, it may be necessary to undertake a major marketing effort to inform the public, as well as create a secondary market. This effort would be extremely expensive and the 10% restriction imposed in Section 2(4)(b)(1) may exclude it from consideration. It should be noted that the fact that an expensive marketing plan would be necessary to succeed may in itself cause the program to fail. Bullion coins are generally sold at a very small premium. In fact, dealers often disrupt the market by simply dropping their premium by a fraction of a percentage point. In order for the Department to cover all its costs, including marketing, it may be necessary to price the coin out of the market. It is for this reason, as well as those described above, that the Department highly recommends a marketing study be undertaken.

In addition to the major concerns expressed above, the Department has a number of suggested technical modifications that we would like to submit to the Committee for their review.

In conclusion, the Department feels that the issuance of silver coins is one means of disposing of silver from the National Defense Stockpile which deserves additional attention. We strongly recommend that a study be undertaken to determine the demand, the price, and the general feasibility of the proposal.

Again, thank you for the opportunity to testify on this bill. This concludes my formal remarks; I would be pleased to answer any questions you may have.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE April 14, 1983

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $7,751 million of 52-week bills to be issued April 21, 1983, and to mature April 19, 1984, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-issue Yield)
High -	91.639	8.269%	8.97%
Low -	91.623	8.285%	8.99%
Average -	91.633	8.275%	8.98%

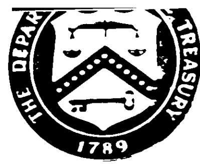
Tenders at the low price were allotted 6%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 172,370	$ 32,370
New York	16,628,550	7,161,350
Philadelphia	5,690	5,690
Cleveland	32,285	13,285
Richmond	91,805	22,805
Atlanta	62,930	19,930
Chicago	891,895	239,795
St. Louis	74,390	45,690
Minneapolis	19,175	13,175
Kansas City	29,850	22,150
Dallas	10,725	4,725
San Francisco	1,563,275	75,275
Treasury	94,910	94,910
TOTALS	$19,677,850	$7,751,150
Type		
Competitive	$18,024,425	$6,097,725
Noncompetitive	503,425	503,425
Subtotal, Public	$18,527,850	$6,601,150
Federal Reserve	1,100,000	1,100,000
Foreign Official Institutions	50,000	50,000
TOTALS	$19,677,850	$7,751,150

R-3034

TREASURY NEWS



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FOR IMMEDIATE RELEASE
April 15, 1983

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MEETING OF U.S./JAPANESE CUSTOMS LIAISON COMMITTEE

The third meeting of the U.S./Japanese Customs Liaison Committee was held in Tokyo from April 11 - April 13, 1983. The U.S. Delegation was headed by John M. Walker, Jr., Assistant Secretary of the Treasury, and the Japanese side was headed by Mr. Naoyoshi Matsuo, Director-General of the Customs Tariff Bureau.

The U.S. and Japanese Delegations exchanged views on a broad range of subjects, including the organization and management of their respective customs services, improvement in import entry procedures, a system to resolve questions or complaints from the trade community and matters being considered by the Customs Cooperation Council. The Japanese delegation took the occasion of the meeting to announce a new system of binding classifications, implemented on April 1, 1983, which, as Mr. Walker said, "will facilitate trade into Japan by allowing importers to know in advance the tariff consequences they will be facing upon importing goods. And, it will provide for uniform treatment of goods by Japanese Customs, regardless of Japanese port of entry". During the meeting, Mr. Walker and Mr. Matsuo agreed to set up study groups at the working level to exchange information on current operation programs of the respective Customs Services of the two countries. In addition, they agreed to form a working group to study the desirability of entering into a permanent bilateral Customs Agreement.

R-3035

TREASURY NEWS

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File

STATEMENT BY
THE HONORABLE
R.T. MCNAMAR, JR.
THE DEPUTY SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL
DEVELOPMENT INSTITUTIONS AND FINANCE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
APRIL 18, 1983

Mr. Chairman, Members of the Committee, I appreciate the opportunity to come before you to explain the Administration's proposals to replenish the resources of the Inter-American Development Bank, the Asian Development Bank and the African Development Fund.

These proposals are based on the first three negotiations conducted by this Administration to replenish multilateral development bank resources and reflect in large measure the goals set in our review of these programs which was completed about a year ago.

Before describing the main features of these negotiations, I would like to reflect on a point which sometimes receives scant attention: after careful consideration, this Administration elected to continue a strong U.S. leadership role in the banks. Differences over choices in policy emphasis, funding levels or tactical approach in negotiations should not obscure the broad, bipartisan support that these programs have had over the years. In that spirit, I hope for your support and urge early action to enact the proposed legislation.

R-3036

The Administration approached these replenishment negotiations with several objectives in mind. First, we felt strongly the need to balance our stringent budgetary situation against the value of these programs to U.S. interests. While we did not expect broad support for our initial negotiating positions, I believe we have concluded agreements which provide for substantial reductions in budgetary requirements but still preserve -- indeed, strengthen -- the contribution of these programs to our overall foreign policy objectives in Africa, the Western Hemisphere and Asia. These agreements will call for appropriation of $323.7 million annually, while the preceding agreements for the same institutions required annual appropriations of $399.9 million over a comparable period. The reduction of $76.2 million, or 19.1 percent, fulfills our obligation to the American taxpayer to ensure that continuing federal programs do not spend more than is necessary to achieve their objectives.

Second, these agreements strengthen the financial policies of these institutions. In each of these programs, there are clear, definite improvements in the management of financial resources. The heightened caution in capital markets and the stringent budgetary situation in almost all member countries compelled attention to improved resource utilization and more precisely focused lending programs.

Third, the banks are adopting more systematic policies to encourage improved economic policies in borrowing countries. I hope that economic policymakers in borrowing governments will heed their own experience in managing their economies through this difficult period and the forceful persuasion of the banks to adopt policies contributing toward more rational, productive allocation of resources.

Fourth, these replenishment agreements continue international support for greater integration of the developing countries into the international trading and financial system. The lending programs based on these replenishments will provide a significant portion of the financial resources required to allow the developing countries -- particularly the poorest countries -- to gain a fair part of the benefit from the global economic recovery in the coming years -- directly by financing economically sound projects and indirectly by expanding opportunities for trade and investment in borrowing countries.

Finally, I would like to address an important objective in these negotiations which stems directly from an initiative of this Committee. In 1981, the Congress enacted a requirement which called for seeking specific guidelines in each institution to guide a portion of the lending program to benefit needy people.

The Asian Development Bank is taking steps to guide more precisely its lending operation to benefit directly the poorest groups. The ADB has cited "poverty reduction" as the key element of its development approach. The ADB also estimates that 60 percent of its lending activities provided significant benefits to the poor. A central objective emphasized by many donor countries, including the United States, during the Asian Development Fund negotiations was the need to direct ADF resources to the neediest groups in borrowing countries. As a step toward that objective, the ADB has initiated and expanded its project benefit monitoring and evaluation effort, with strong support from the United States. This program will provide a basis for measuring the actual impact of ADB loans on the poorest groups in borrowing countries and for assisting ADB staff to design future projects.

U.S. representatives raised this issue in each of the negotiations. The results have not been completely satisfactory. In the first of the negotiations -- for the African Development Fund -- I should frankly explain that our proposal was greeted with bemusement. The widespread poverty in Africa and the fact that the AFDF program provides 80 percent of its loans to countries with per capita GNPs under $400 led others to suggest that our proposal called for the equivalent of demonstrating that circles are round. While other donor countries agreed with the desirability of focusing AFDF lending on poorer groups within borrowing countries, we were unable to obtain a consensus that specific guidelines were a priority at this time.

The Inter-American Development Bank established guidelines in 1978 to provide 50 percent of the lending program to benefit directly the poorest groups in borrowing countries. As a result, the average during the 1979-1981 period was 54 percent. Other donors joined us in urging that the 50 percent guideline be retained, and we were able to achieve this objective in the IDB.

African Development Fund

Before discussing the two recent replenishment negotiations, I want to stress the serious situation facing the African Development Fund. This is the second year of the $1.1 billion replenishment. Other donors provided first installments for the current replenishment totalling $200 million last year to finance the lending program. Under the replenishment agreement, they need not provide additional funds until the United States contributes its first $50 million installment.

The Continuing Resolution enacted in December would allow the first $50 million contribution in fiscal year 1983, if

Further delay would impair economic growth in the borrowing countries at a critical time. About $170 million in project loans have been approved but are awaiting financing. The projects that have been and will be delayed would normally come into production in three or four years. The delay is denying the borrowing countries the benefit of the output of projects that would otherwise come on stream in the middle of a strong global economic recovery, and is therefore particularly unfortunate.

The Senate passed this legislation last year, and the debate on the House floor last December demonstrated broad bipartisan support for this element of the U.S. foreign assistance program.

I hope that the Committee will be able to support and obtain passage for this especially critical $150 million authorization bill as soon as possible.

Inter-American Development Bank

The proposed replenishment for the Inter-American Development Bank would provide an increase in capital of $14.8 billion for a total capitalization of $34.4 billion, if members subscribe to all authorized capital shares. The replenishment also would provide an additional $703 million for the concessional Fund for Special Operations (FSO), bringing total contributions to this program since its inception in 1960 to almost $8.4 billion.

These resource increases, together with several improvements in financial policies, are designed to provide financial support for a $13.0 billion lending program for the 1983-86 period. Using the 1982 lending program as a baseline, the proposed replenishment would permit an overall annual increase of 13.8 percent in IDB lending during the four year period, a slight decline from the 15 percent annual increase during the previous replenishment.

The United States would retain its traditional share of these proposed resource replenishments: 34.5 percent of the capital increase and about 41 percent of the FSO replenishment. The total U.S. subscription to the four year capital increase would be $5.2 billion, including $232 million paid-in. The total U.S. contribution to the FSO during this period would be $290 million.

Annual appropriation requirements beginning in fiscal year 1984 would be $130.5 million -- $58 million for paid-in capital and $72.5 million for the FSO. In addition, authorization would have to be provided under program limitations in appropriations acts for $1.231 billion annually to subscribe to callable capital.

The replenishment negotiations included agreement on two points which I should mention and which reflect the growing maturity and financial strength of the institution and its borrowers. First, a revised interpretation of the limits on commitment authority will make available an additional $2.5 billion for the lending program without requiring additional resources from member countries.

Second, this replenishment initiates an Intermediate Financing Facility (IFF) designed to diminish the interest cost of hard window loans by up to five percentage points. IFF supported loans will be for those countries whose level of economic development is too high to justify continued concessional lending but not high enough to borrow entirely on the terms of ordinary capital loans. Since the IFF will be funded by FSO net income and general reserves, no new resources are required to finance the IFF. Voting power will be based on FSO contributions. The United States will therefore have a veto over IFF operations, while not being required to put up additional resources.

Having recited the financial bare bones of the IDB replenishment, I would like to stress two important points:

- -- this agreement is vital to U.S. interests in Latin America, and
- -- it substantially strengthens the effectiveness of the IDB, as an institution.

Within the last year, we have seen developments in Latin America and the Caribbean grab the center stage of our foreign policy.

- -- A year ago, a long simmering territorial dispute between Argentina and the United Kingdom exploded into war.
- -- The republics of Central America and the Caribbean have been a constant concern.
- -- The economic and financial prospects for some of our largest neighbors in the region are receiving wide attention.

Sound, strong economic growth in the region is part and parcel of favorable solutions to problems facing these nations. The IDB and its lending program are important instruments to achieve such growth.

Argentina has received more long-term economic assistance from the IDB -- $2.6 billion since 1960 -- than from any other single source. In all candor, I can not vouch that the IDB has historically pressed Argentina to pursue sound economic policies in connection with development projects. But I can assure you that the U.S. Executive Director in the IDB and the Treasury Department are working hard to strengthen IDB policy conditionality in its lending program. When fully implemented, stronger conditionality should contribute to better performance in the industrial sector -- the beneficiary of a substantial portion of IDB lending to Argentina.

The Caribbean Basin countries will receive increasing support from the IDB in this replenishment. Since the IDB was founded in 1960, the eight IDB member countries in the Caribbean region that are of special concern to the United States have received $791.3 million from the hard window and $2.5 billion from the soft window, or 6.2 percent and 29.5 percent, respectively, of total lending from these two sources.

While it is not possible to identify the precise amount which will be provided to countries in the Caribbean Basin, we can safely presume that the average annual growth in lending to this group of countries will exceed the overall 13.8 percent planned for the IDB lending program.

Under the proposed replenishment, for example, FSO resources will be provided only to Group D countries -- the poorest countries and, with the exception of Bolivia and Ecuador, all in the Caribbean Basin. The proportion of hard resources for Caribbean Basin countries should expand substantially.

For the larger economies of Latin America -- Mexico, Brazil, Argentina and Venezuela -- the IDB is not expected to be a major source of funds. The private capital markets will remain the primary sources of external financing.

The IDB, however, can play a critical role in strengthening sectoral policies and in catalyzing financial resources for projects which can serve to integrate these countries into the international trading system more fully.

These considerations lead me to the second major point which I want to stress: this Administration has worked hard to strengthen IDB policies in the financial area and in project preparation and implementation.

Many IDB borrowers have traditionally operated their public-owned utilities with pricing policies which do not provide for fully covering operating and capital costs. The net result has been that governments have had to provide subsidies in the form of budgetary transfers or to take over outstanding loans obligations to prevent decapitalization or illiquidity. Since the IDB has been a significant lender to these utilities, the Bank's permissive approach to the financial soundness of utility tariff structures has not contributed the positive influence it might otherwise have had in this sector.

Last year, the U.S. Executive Director negotiated a major change in the Bank's policy in this area. In the future, the IDB will require borrowers to maintain a tariff structure adequate to cover operational costs and to make some contribution toward capital costs.

In a similar fashion, the Administration has negotiated a substantial strengthening of IDB on-lending interest rate policies. In the future, intermediate credit institutions that borrow from the IDB will have to on-lend the funds at positive real interest rates, as a general rule. Exceptions will be allowed only temporarily in the context of a program that is demonstrating progress toward this objective. Agreement on this new IDB policy on interest rates was an integral U.S. objective in the replenishment negotiations.

IDB financial structure and policies were also strengthened in these negotiations. For the first time, all IDB members will subscribe to paid-in capital and contribute to the FSO in convertible currency. In the previous replenishment, borrowing countries provided only two-thirds of their paid-in capital in convertible currencies. FSO contributions from the larger countries were 75 percent in convertible currencies, but the smaller countries provided only national currencies.

The replenishment agreement calls for paying in 4.5 percent of capital subscriptions, compared to 7.5 percent in the previous replenishment. Based on the strong financial standing of the institution in capital markets, the United States originally proposed no paid-in capital. The outcome represents a compromise with the views of other members and reflects some Congressional concern with elimination of paid-in capital.

Finally, the relatively high per capita GNP in several of the countries which have been borrowing from the FSO indicated the need to review the eligibility of borrowers for these highly concessional resources. This replenishment substantially tightens maturation policies. Such relatively high income countries as Chile, Colombia and Peru will borrow from only the hard window in the future, while others, such as the Bahamas, Uruguay and Barbados, will borrow hard window and IFF resources.

In summary, the IDB replenishment reflects several solid achievements in our efforts to strengthen the institution. More importantly, the institution remains a vital part of our relationship with our neighbors in the Western Hemisphere.

Asian Development Bank

The proposed capital increase for the Asian Development Bank (ADB) would provide about $8.1 billion to bring total capitalization to about $15.8 billion in fiscal year 1988. The replenishment for the Asian Development Fund (ADF) would provide $3.2 billion to support its concessional lending program from 1983 to 1986 and would raise the total resources of the ADF since its inception in 1973 to $6.7 billion.

These resources will support lending programs of about $12.4 billion from 1983 through 1987. The annual growth rate of the total lending program during this period is expected to be about 15 percent compared to 17 percent during the previous replenishment.

The U.S. share of the proposed capital increase would continue to be 16.3 percent, remaining at parity with Japan. By contrast, the U.S. share of the ADF replenishment would decline to 16.2 percent, compared to 20.7 percent in the previous replenishment, while Japan's share will increase to 37.8 percent from 36.8 percent. The total U.S. subscription to the five year capital increase would be about $1.3 billion, with $66.1 million paid-in. The total U.S. contribution to the ADF replenishment would be $520 million.

Annual appropriation requirements for these replenishments beginning in fiscal year 1984 are $13.2 million for paid-in capital and $130 million for the ADF. In addition, authority to subscribe to $251.4 million under progra m limitations will be required annually for five years in appropriations acts.

These financial provisions are the result of the replenishment negotiations, but do not, in themselves, reflect the critical reasons which argue for U.S. participation. Again, as in the IDB, we see the ADB providing solid contributions to economic progress in a region of strategic importance to U.S. foreign policy.

Major ADB borrowers -- Korea, the Philippines and Thailand -- have been reliable partners in security relationships with the United States for many years. Another major borrower -- Indonesia -- has made remarkable political and economic progress in recent years with solid, growing support from the ADB.

Economic progress in the region since the ADB was established in 1966 -- not a pure coincidence -- has been spectacular. Hong Kong, Korea, Singapore and Taiwan have been justly celebrated as the "Gang of Four" economic success stories. Of even more recent vintage -- and therefore less frequently noticed -- are the significant achievements in Sri Lanka and Malaysia.

The ADB role in these positive developments, while not especially large in financial terms, has nonetheless been significant. ADB supported projects have funded some key elements of the development programs of these countries.

More recently, the ADB has been at the forefront of innovative development techniques. Within the last year, the ADB has put together a unit to syndicate appropriate project financing among commercial banks. Such cofinancing has increased from a 1970-to-1980 total of $38 million to $87 million in 1981 and about $261 million in 1982. In this context, I might mention -- with some admiration -- that none of the ADB borrowers has yet encountered major financing difficulties despite the severity of the global recession -- a tribute to the generally sound economic policies being pursued in the region with the support of the ADB.

To further its role as a catalyst of private capital flows, the ADB also has recently established a small $10 million equity fund to invest in promising private companies in borrowing countries.

The proposed replenishment will provide resources to support the activities of this sound, well-run institution for the next several years. The replenishment also would achieve several specific U.S. objectives.

The ADB lending program will continue to focus on the medium and small member countries of the region:

-- More creditworthy countries, such as Thailand, Indonesia and the Philippines, no longer borrow concessional ADF resources, so that soft lending can concentrate on the poorer countries: Pakistan, Sri Lanka, Bangladesh, Nepal and Burma.

-- The strategically located Pacific islands, such as Tonga, Kiribati and Vanuatu, which in some cases are too small to justify organizing World Bank or bilateral lending programs, are receiving special attention from the ADB through regular technical assistance and financing.

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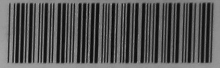
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