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TREASURY NEWS

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FOR IMMEDIATE RELEASE
Friday, November 4, 1983

STATEMENT BY
TREASURY SECRETARY DONALD T. REGAN
ON THE DEBT CEILING

Secretary of the Treasury, Donald T. Regan, said today that because of the irresponsible inaction by the Senate to raise the debt ceiling the Treasury Department must continue the "hand-to-mouth policies" that it has been pursuing since Monday.

"Since the Senate has failed to act on our request to raise the debt limit, the Treasury is attempting to adjust its financing plans in a way that will minimize the costs to the taxpayer of the resulting market disruptions," Regan said.

"Treasury's delay in making announcements or waiting until a debt limit is passed, continually exacerbates market uncertainty. Many issuers of debt, including corporations, state and local governments, and Federal agencies, must plan their own financing around Treasury's schedule. There should be no necessity to manage the public debt in this manner. It is risky and disruptive. The Senate should act as soon as possible in the interests of the American people," Regan continued.

As a result of the inaction by the Senate, Treasury announced Monday the suspension of the sale of U.S. Savings Bonds and special state and local government non-marketable Treasury securities (SLGs).

By taking these steps and reducing by $5 billion the amount of its weekly bills auctioned last Monday, it appears likely the Treasury can reschedule to settle the refunding issues in their original amounts on November 15 without exceeding the debt limit.

However, resumption of Savings Bonds, SLGs and the full restoration of Treasury's regular market financing will have to wait for positive Senate action on the debt ceiling bill.

The refunding announcement made today is attached.

R-2404

FOR RELEASE AT 10:00 A.M. November 4, 1983

TREASURY RESCHEDULES $16 BILLION REFUNDING OFFERINGS

The Department of the Treasury hereby amends its offering announcement of October 26, 1983. The auction of 3-year notes in the amount of $6,500 million, originaly scheduled for Tuesday, November 1, is now scheduled for Monday, November 7, with the closing time for receipt of tenders at 12:30 p.m. EST. The auction of 10-year notes in the amount of $5,250 million, originally scheduled for Wednesday, November 2, is now scheduled for Wednesday, November 9, with the closing time for receipt of tenders at 1:30 p.m., EST. The auction of 29 3/4-year bonds in the amount of $4,250 million, originally scheduled for Thursday, November 3, is now scheduled for Thursday, November 10, with the closing time for receipt of tenders at 1:30 p.m., EST. The securities will be issued on Tuesday, November 15, as originally announced.

The Treasury may alter the size or timing of these auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the rescheduled auction dates.

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TREASURY NEWS

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

File

For Release Upon Delivery
Expected at 9:30 a.m., E.S.T.
November 4, 1983

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to present the views of the Administration on S. 1822, a bill to amend the Internal Revenue Code to create a new mortgage investment vehicle known as Trusts for Investments in Mortgages ("TIMs"). I also would like to take this opportunity to discuss generally the tax treatment of residential mortgage investments and secondary mortgage market institutions.

While the Administration opposes S. 1822 as presently drafted, the Administration does support the TIMs concept. The Administration plans to offer in the near future an alternative TIMs proposal for the Committee's consideration as a substitute for S. 1822.

R-2405

Background

The secondary mortgage market has expanded dramatically in the last few years and is expected to continue to grow. The term "secondary mortgage market" describes a market where mortgage originators such as thrift institutions and mortgage bankers may sell mortgages or mortgage-backed securities to investors who desire to own them as portfolio investments. According to the Wall Street Journal, in 1980, mortgage orginators sold almost one-half of all single family residential mortgage originations in the secondary mortgage market. Many believe that sales of home loans in the secondary market will soon total two-thirds of all new mortgage originations. HUD estimates that nearly $116 billion of single-family mortgages were purchased in the secondary mortgage market during the first eight months of 1983. This eight-month volume for 1983 exceeds the record $110 billion volume for all of 1982 and is more than double the 1981 volume of $55 billion.

The rapid growth of the secondary market has coincided with a trend towards "securitization" of mortgages, that is, the packaging of large pools of mortgages into mortgage-backed securities that represent interests in the pooled mortgages. In the first eight months of 1983, an estimated $60 billion in mortgages were pooled into mortgage-backed securities and sold in the secondary market. Mortgage-backed securities have the advantage of greater liquidity and less risk of default than individual whole mortgages, and they free investors from the administrative burden of having to deal with thousands of relatively small mortgages which comprise the mortgage pool.

One of the principal reasons for the expansion of the secondary mortgage market has been the substantial change in the nature of thrift institutions, which traditionally have supplied the bulk of long-term residential mortgage credit. Since the late 1970's, thrifts have faced higher costs of capital as interest rates paid on deposits increased due to competitive pressures and interest rate deregulation of financial institutions. Volatile interest rates made it increasingly risky for thrifts to finance portfolios of long-term fixed rate mortgages with short-term deposits bearing variable interest rates. Many thrifts experienced substantial losses when their interest costs exceeded their returns on long-term fixed interest rate mortgage investments. Partly as a result of the problems faced by thrifts, thrift asset powers have been expanded through deregulatory legislation, with the result that thrifts now may own more non-mortgage assets in their portfolios. At present, thrifts increasingly have been shifting their focus towards origination and servicing of residential mortgages, rather than holding mortgages they originated as long-term investments.

The secondary mortgage market is the principal means by which thrifts and other mortgage originators are able to sell newly originated mortgages (or older mortgages held in their portfolios) to raise capital to finance new mortgage loans. At the present time, the secondary market is dominated by three agencies with ties to the Federal government: the Federal National Mortgage Association (FNMA or "Fannie Mae"), the Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"), and the Government National Mortgage Association (GNMA or "Ginnie Mae"). Ninety-seven percent of the mortgage-backed securities purchased by investors in the secondary market during the first eight months of 1983 were issued or backed by these Government-related agencies. As this statistic indicates, the Federal involvement in the secondary market has expanded significantly as the role of thrift institutions as investors in mortgages has decreased.

GNMA is part of the Department of Housing and Urban Development. It provides a secondary guarantee (backed by the full faith and credit of the United States) of FHA-insured or VA-guaranteed mortgage pools formed by qualified private issuers. FNMA is a privately owned corporation which has special Federal agency borrowing privileges (a $2.25 billion Treasury line of credit usable at Treasury discretion), as well other Federal agency benefits such as an exemption from securities registration requirements and from state and local taxes. FHLMC is wholly owned by the Federal Home Loan Banks, which in turn are owned by private thrift institutions. FHLMC has, among other Federal agency benefits, an indirect Treasury line of credit of $4 billion (through the Federal Home Loan Banks), also at Treasury discretion. Unlike FNMA, FHLMC is exempt from Federal income taxes. Because of their agency status and statutory privileges, FNMA and FHLMC are able to obtain capital at close to the borrowing rates applicable to Treasury borrowings. As of the end of fiscal year 1983, these agencies owned about $80 billion in mortgages and had over $223 billion in mortgage-backed securities outstanding.

Under present law, FNMA and FHLMC both are limited to acquiring "conforming" mortgages (i.e., those under $108,300). They may acquire these mortgages for their own portfolios, but increasingly they are purchasing mortgages to be packaged and resold as mortgage-backed securities guaranteed by their credit. Because of their agency status and standing in the markets, almost all mortgage-backed securities using conventional, conforming mortgages are sold by FNMA and FHLMC. In addition, almost all FHA or VA mortgages sold in the secondary market are sold with GNMA guarantees.

Within the past 12 months there have been some new wholly private concerns that have entered the secondary market as issuers of mortgage-backed securities. These private issuers are allowed to purchase any kind of mortgage to use for their mortgage-backed securities, but in fact they are often priced out of the Government-insured and conventional, conforming markets because of the presence of the Government-related agencies. The extent of their disadvantage may be estimated by comparing the interest rate spreads between mortgage-backed securities issued by private parties and those issued by FNMA and FHLMC. Compared to securities of private issuers, FNMA and FHLMC securities have a 50 to 100 basis point interest rate advantage that directly reflects their agency status. These private sector issuers are able to operate in the conventional, non-conforming (over $108,300) market without competition from the Government-related agencies. However, the nonconforming market is relatively small, accounting for less than 8 percent of mortgages sold in the secondary market.

Over the past two and a half years, the Administration has made a strong commitment to controlling the growth of Federal credit, including credit of Government-related agencies, for several reasons. First, the growing Federal consumption of capital that could be more efficiently employed if left in private hands has caused a misdirection of investment resources and has substantially inhibited capital formation and economic growth. Second, Federally subsidized borrowers are nearly always less productive than unsubsidized borrowers, in large part because this growing Federal intervention has distorted the market's assessment of true risk and return and weakened the normal bottom-line discipline of profitability and credit worthiness. Finally, the avalanche of new Federal and Federally sponsored debt issues continuously offered to the market will keep interest rates higher than would otherwise be the case, forcing all private firms to shoulder more expensive financing costs and in many cases crowding out unsubsidized private borrowers who cannot absorb the higher interest expense.

As part of this policy of limiting the growth of Federal credit, the Administration remains committed to seeking the total privatization of Fannie Mae and Freddie Mac. The Administration is convinced that the special advantages enjoyed by these agencies result in a less efficient allocation of this nation's scarce credit resources and higher overall borrowing costs for all users of credit, including many homebuyers. Although the Administration does not propose to privatize Fannie Mae and Freddie Mac at this time, the Administration believes that as a matter of Federal credit policy, it is crucial to encourage private sector mortgage securities issuers to enter the market as viable competitors of these agencies. As more fully discussed

below, the Administration views the TIMs tax proposal as a key tool for increasing the role of private sector issuers of mortgage-backed securities. The Administration will not support any TIMs tax legislation that permits the Government-related agencies to participate directly or indirectly in this new market. Thus, the Administration fully concurs with the sponsors of S. 1822 that the intent of the TIMs initiative is to foster a strong, totally private, secondary mortgage market.

The TIMs proposal, limited in this manner, should be viewed as a first step toward privatization of the secondary mortgage market. After the TIMs vehicle is in place, we will study the expansion of the private market and will propose further steps towards privatization of the secondary market as may be appropriate.

With that background, I will now turn to the current tax treatment of mortgages and mortgage-backed securities.

Tax Treatment of Mortgages and Mortgage-Backed Securities

Whole mortgages. Under current law, holders of debts of individuals (including residential mortgages) are subject to different rules from those applicable to holders of debt instruments of corporate debtors. Stated interest provided for in a loan obligation is ordinary income to the holder, regardless of whether the debtor is an individual or a corporation. However, the tax treatment of unstated interest, such as discounted "points", and the treatment of collections of principal on the loans differs depending on the identity of the debtor. Original issue discount on debt obligations of persons other than individuals is subject to the periodic inclusion rules of Code section 1232A, which require a portion of the original issue discount to be taken into the holder's income on a daily basis as interest income, whether or not received. In contrast, original issue discount is not taxable to the holder of an individual's mortgage loan until actually received or accrued (depending on the holder's method of accounting). Another important difference is that receipt of principal payments from the debtor in excess of the holder's basis in a corporate debt obligation results in capital gain to the holder (other than a financial institution) if the debt is a capital asset in the holder's hands. This capital gain may arise when an existing obligation that was issued for its face amount is purchased at a discount ("market discount"), and the debtor thereafter repays the obligation. See Code section 1232(a)(1). In contrast, the holder of an individual's mortgage obligation that was acquired at a market discount has ordinary income when the mortgage is repaid. Since there are many billions of dollars of existing mortgages with below-market interest rates, there is a tremendous amount of potential market discount on mortgages in our economy.

In the case of a mortgage purchased at a market discount, each payment of principal results in ordinary income to the extent that the amount of principal received (or due) exceeds a proportionate part of the holder's basis in the obligation. For example, if an investor buys a $100 mortgage for $80, each dollar of principal received from the borrower will result in 20 cents of ordinary income; 80 cents of the investor's basis will be offset against each dollar of principal received. Since residential mortgages generally call for low principal payments in early years and increasing principal payments in later years, the ordinary income attributable to a mortgage purchased with market discount tends to be deferred until later years.

Market discount is in all respects the equivalent of interest income to the holder of a debt because it exists in lieu of coupon interest, and is reflected in the fixed and predictable growth in value of the bond according to a compound interest formula. To treat market discount correctly, the holder of a debt acquired at a market discount should be required to include the discount in income annually on a constant interest method, similar to that applicable to corporate original issue discount obligations. We believe, however, that another approach which would be more easily administered and complied with by taxpayers might be adopted as an alternative. This alternative approach would require computation of the periodic accrual of market discount, and recognition of this amount as ordinary income when the bond is sold or paid at maturity. The computation of the accrual of market discount would be made on a straight-line basis or the constant interest method, at the taxpayer's election. Equivalent tax treatment should apply to market discount on both corporate and individual debts.

Mortgage-backed securities. Until recently, most residential mortgages marketed as mortgage-backed securities were not sold as whole mortgages, but were pooled in "fixed investment trusts" and sold in the form of certificates of beneficial interest in the trusts. The fixed investment trust form is used because no corporate or other income tax is imposed on the trust, which is viewed as a "grantor trust." In a grantor trust, all income taxes with respect to the mortgages are paid by the certificate holders under the rules applicable to direct ownership of whole mortgages, and the certificate holders are treated as the beneficial owners of the mortgages. Since the investors are considered to "own" mortgages rather than some other security, thrift institutions that own fixed investment trust mortgage securities may treat them as "mortgages" for purposes of the special bad debt reserve deduction available to thrifts with substantial mortgage investments. *See, e.g.*, Rev. Rul. 70-544, 1970-2 C.B. 6; Rev. Rul. 70-545, 1970-2 C.B. 7.

The beneficial tax treatment of fixed investment trusts is lost if the trustee of the trust possesses any significant power to vary the investments of the trust (such as by reinvesting the proceeds of mortgages that are prepaid). If such a power exists, the trust is treated as an association taxable as a corporation, and a corporate tax will be imposed on the trust. Distributions by the trust to certificate holders then would be subject to a second tax as "dividends."

Despite its widespread use, the fixed investment trust device for mortgage investments has several drawbacks. The threat of association status makes it difficult to provide "call protection" to investors (i.e., a guaranteed yield for a guaranteed period), because unforeseen mortgage prepayments or other receipts of the trust cannot be reinvested in new mortgages. Since mortgage prepayments cannot be reinvested, they must be distributed to the investors. Investors are unable to predict with certainty the duration of their investments or their expected yields to maturity. Many investors have declined to purchase fixed investment trust mortgage-backed securities because of their lack of call protection.

In addition, it is difficult or impossible to structure a fixed investment trust when the certificate holders have interests in the mortgages that differ in their respective maturities or in their rights to receive distributions of cash flow. For example, it may be impossible in a fixed investment trust to provide for a priority in distribution of cash flows to certain investors. Such priority arrangements, known as "fast-pay, slow-pay" pools, are desirable as a means of providing investors call protection and a mortgage security with a more certain maturity. In a fast-pay, slow-pay pool, all mortgage principal payments (including prepayments) up to a specified amount are first distributed to a class of "fast-pay" investors who do not require call protection and wish to make short-term investments. After the fast-pay class has been retired, the remaining "slow-pay" classes begin to receive principal payments collected by the pool. The slow-pay investors have an investment with a longer maturity than fast-pay, and they enjoy some significant degree of call protection because their investment will not be retired until all fast pay investors have been fully repaid. Fast-pay, slow-pay pools partitioned into two or more investment classes may be sold at a significant premium over whole mortgage pools because of these features.

Other arrangements besides grantor trusts may be used to market mortgage-backed securities without a corporate tax being imposed on the pool. Issuers are beginning to turn to these alternative structures to avoid the limitations presented by the grantor trust rules. Although these arrangements allow active management of the mortgages in the pool and multiple classes of ownership, they pose a variety of problems of their own.

Real estate investment trusts (REITs) are permitted to pass through their income to shareholders without corporate tax. REITs may own residential mortgages, and they are permitted to exercise certain active management powers. REIT also may have more than one class of ownership interest. However, a REIT must have 100 or more shareholders, making it unavailable for use in private placements, and it must distribute at least 95 percent of its income and cannot reinvest those amounts. Although multiple class REITs are permitted, there is uncertainty regarding the taxation of the stockholders in a fast-pay, slow pay REIT because of the potential adverse application of Code section 305 and other Subchapter C rules as shares are periodically redeemed. Furthermore, the REIT rules change the character and timing of the income flow from the mortgage investments from that which would be available to direct investors in mortgages.

Partnerships also might be used as a means of marketing multiple classes of mortgage-backed securities without any corporate tax being imposed on the mortgage pool. However, partnerships are subject to a variety of complex rules under Subchapter K of the Code. Furthermore, partners are allowed to deduct on their individual returns tax losses sustained by the partnership, and are allowed to make special allocations of income and loss among themselves. We have some concern that partnerships that invest in mortgages might be used as a means of creating substantial tax shelters or tax-deferred interests for the benefit of certain partners. These tax avoidance possibilities are not available under the fixed investment trust vehicle. In addition, serious distortions of taxable income could result for a partner who acquires his interest in the partnership in the secondary market from an existing partner at a discount or premium, unless a series of adjustments is made by the partnership to the cost basis of each of its mortgages each time a partnership interest changes hands. These adjustments would be a burdensome endeavor in a publicly traded vehicle. Partnership investments also may not be legal investments for some classes of potential mortgage investors under State regulatory statutes.

Finally, mortgage-backed securities can be issued as corporate indebtedness that is secured by mortgages (or mortgage-backed securities) owned by the issuing corporation ("mortgage-backed bonds"). The bonds might pay to the holders all or most of the amounts received on the underlying mortgages. Since mortgage-backed bonds are corporate bonds, the tax treatment of the holders of the bonds and the issuer is governed by the rules applicable to corporate bonds, rather than to those applicable to mortgages of individuals. The disparity between these rules may in some cases make it disadvantageous for investors to acquire the bonds. On the other hand,

mortgage-backed bonds in some situations might be used to create tax shelters for issuers of the bonds. Furthermore, in some cases, recovery of market discount on the mortgages might be converted into capital gain in the hands of the bondholders.

One category of mortgage-backed bonds, known as "builders' bonds", also presents tax policy concerns. Builders' bonds are issued by home builders who sell houses under the installment sales method. The builders take back mortgages on the houses, and report their profits on the sales as principal payments are made on the mortgages. In a typical builders' bond transaction, the builder pools the mortgages and converts them into mortgage-backed securities carrying a GNMA or other agency guarantee. The guaranteed securities are then pledged as collateral for the mortgage-backed bond issue. The bonds enable the builder to borrow all or a substantial part of the amount of the mortgages, since they are backed by the Federal Government and produce sufficient revenues to service most or all of the payments due on the bonds. Thus, issuing a builders' bond enables the builder to receive almost the full value of the mortgages in cash without exposing itself to any significant borrowing risk, while at the same time continuing to defer tax on the profits from the sale of the houses for as long as 30 years.

Installment sales reporting is intended to benefit taxpayers who sell their property but do not promptly receive the full sales proceeds. With a builder's bond, however, the builder receives the sales proceeds when the bonds are sold to the investors. Because a purchaser of a builder's bond is unaffected by the limitations or restrictions on securities issued by fixed investment trusts, builders' bonds may be more attractive to investors than fixed investment trust mortgage securities.

S. 1822

Trusts for Investment in Mortgages

S. 1822 would create a new investment vehicle for mortgage-backed securities known as TIMs (Trusts for Investment in Mortgages). The Administration agrees with the sponsors of S. 1822 that a new mortgage-backed securities vehicle is needed to respond to the difficulties with existing structures for packaging mortgages for sale in the secondary market. However, the Administration has one significant policy objection with respect to S. 1822, and there are several important technical problems with the bill.

Under the provisions of S. 1822, a TIM could acquire a pool of mortgages and be exempt from corporate tax (as is the case with fixed investment trust mortgage pools) on the earnings of

the pool. The tax incidents of owning mortgages generally would be unchanged from present law, and all tax liabilities associated with direct ownership of mortgages would be borne by the investors. Unlike a fixed investment trust, however, a TIM could actively manage its portfolio of assets so as to provide for call protection against unexpected prepayments. In addition, fast-pay, slow-pay interests in the mortgages would be permitted. Because of these features, a TIM security could be superior to traditional fixed investment trust mortgage-backed securities using equivalent mortgages. The Administration supports these general aspects of S. 1822, which are consistent with the TIMs concept as originally developed by the President's Commission on Housing.

Under S. 1822, FNMA and FHLMC would be prohibited from being trustees, directors or shareholders of TIMs. This prohibition reflects the view by the sponsors of S. 1822 that TIMs should be used to promote activity in the secondary mortgage market by private sector entities, not by the Government-related agencies. If the Government-related agencies were allowed to issue TIMs, they could further entrench themselves in the secondary mortgage market and forestall the development of viable private sector issuers of mortgage-backed securities.

The Administration agrees that TIMs should be limited to private sector issuers. Nevertheless, we believe that the prohibition in S. 1822 may be too restricted. S. 1822 does not affect or limit the involvement of GNMA in any aspect of TIMs, nor does it prohibit the Government-related agencies from being issuers of TIMs or from having agency securities used as assets of TIMs established by private persons (such as investment bankers). TIMs funded by agency securities would have a distinct competitive advantage over TIMs established without the benefit of Federal agency backing, and might even be viewed as superior to corporate debt obligations.

S. 1822 also does not preclude the Government-related agencies or others from using any of the alternative types of mortgage-backed securities that may have some or all of the advantages of TIMs. These include multiple class mortgage REITs, partnerships substantially all of whose assets consist of mortgages or mortgage-backed securities, or mortgage-backed bonds. FHLMC has issued at least $1.5 billion of these mortgage-backed bonds in a fast-pay, slow-pay format (known as "Collateralized Mortgage Obligations") within the past six months. Without rules to preclude these "TIMs-like" securities, the Government-related agencies would retain much of their present advantage over potential private sector issuers of TIMs, especially if these TIMs-like securities are structured to maximize their tax avoidance potential.

To ensure the maximum amount of competition between the private sector and GNMA, FNMA, and FHLMC, the Administration would support TIMs legislation only if it prohibits the agencies from issuing TIMs and TIMs-like securities, and prohibits securities of the agencies from being used as collateral for privately issued TIMs-like securities. In our view, the Government-related agencies should retain their ability to operate in the portion of the secondary market that they now dominate -- the market for single-class fixed investment trust securities. New types of mortgage-backed securities should be reserved for the private sector.

At a technical level, S. 1822 has several defects. The bill would treat TIMs shareholders as if they were partners in a partnership. The Administration objects to this treatment for the reasons previously discussed regarding the problems with mortgage-backed securities issued in partnership form, namely, excessive complexity, and the possibility of creating tax shelters or tax deferred interests. We believe that paper tax losses of a TIM should not be allowed to TIM investors, and that there should be a single set of statutory rules for allocating the income of the TIM. Furthermore, S. 1822 has no effective mechanism to adjust the tax liability of TIMs investors who purchase their interests from prior owners at a premium or discount. This may make TIMs investments relatively less desirable than direct investments in mortgages.

Another significant problem in S. 1822 is that the bill would allow a person (such as a thrift institution) who contributes depreciated mortgages in exchange for an interest in the TIM to recognize losses that would not have been recognized if the mortgages were not contributed to the TIM (in which case the losses would not be recognized until the mortgages were sold). Since ownership of a TIM represents an ownership interest in the TIM's mortgage assets, it is inappropriate to allow or require a taxpayer to recognize losses on a contribution of the mortgages unless and until he sells his TIM shares. There are a number of other technical problems in S. 1822 that must be resolved in order to create a properly functioning pass-through vehicle that does not lend itself to abuse.

In the near future the Administration will propose an alternative TIMs statute that is responsive to the concerns outlined here. The Administration's TIMs proposal will authorize a mortgage investment vehicle that combines the characteristics of a Subchapter S corporation, a partnership, and a REIT. In general, a TIM will not be subject to tax. Any current interest or discount income generated on mortgages held by the TIM will be allocated to the TIM stockholders on a current basis, regardless of whether the income is distributed. There will be no dividends paid deduction, no mandatory distribution requirements, and no

earnings and profits accounts. The Administration proposal will limit TIMs to mortgage-related and cash equivalent investments of a specified class. TIMs will not be allowed to have any active business income (such as fees for mortgage origination or servicing).

Under the Administration proposal, a TIM would be required to meet definitional tests similar to those applicable to a REIT. However, the 100 shareholder requirement and personal holding company restrictions applicable to REITs will be waived. FNMA, FHLMC, and GNMA would be prohibited from being issuers, managers or shareholders of a TIM, and would not be permitted to guarantee TIM assets or TIM shares.

The goal of the rules for TIMs under the Administration's proposal will be to allocate to the TIM stockholders the same amount and character of taxable income, in the aggregate, as would have arisen had the mortgages been held outside of the entity. When all TIM shares are not identical, the Administration proposal will allocate the TIM's income by looking first to the investors who are receiving priority cash distributions from the TIM. Since the goal is to allocate the tax liability associated with mortgages in the pool without altering the basic rules governing taxation of mortgages, retirements or dispositions of mortgages held by the TIM will be treated as if the TIM shareholders retired or disposed of the mortgages held by the TIM. A concept of "par value" of TIM stock will be used to correlate transactions in mortgages by the TIM with the tax treatment of TIM shareholders. Thus, "fast-pay, slow-pay" classes of stock will be facilitated.

To the greatest extent possible, the TIM will be required to provide investors with information setting forth the amount of each investor's taxable income, capital gain, and adjusted basis for tax purposes. If an investor purchases his interest from another investor at a premium or discount compared to the former investor's basis, the premium or discount will be separately amortized by the new investor in a manner similar to the treatment of discounts and premiums on direct mortgage investments. However, if the new investor informs the TIM of his purchase price, the TIM will be able to provide him with the appropriate amortization calculation.

A TIM will be disqualified from flow-through treatment (and will become taxable as a regular corporation) only in rare circumstances. Penalty taxes will be used in lieu of disqualifying the TIM as a means of enforcing the qualification requirements in most instances.

A thrift institution or other taxpayer who contributes mortgages to a TIM in exchange for TIM shares generally will

recognize no gain or loss until the TIM shares are sold. The TIM will account for a contribution of property on a "mark to market" system; the TIM's cost basis in the mortgages will be considered to be equal to their fair market value when contributed. A contributing shareholder will be entitled to certain adjustments to compensate for the difference in the fair market value of the assets and their adjusted basis to the contributing shareholder so as to approximate the tax results that would have obtained if the mortgages had not been contributed to the TIM.

The Administration proposal will contain other provisions designed to prohibit TIMS-like transactions using Government-related agency securities, including multiple class partnerships, REITs, or mortgage-backed bonds. In addition, our proposal will deny the installment sale reporting method in connection with long-term "builders' bond" arrangements.

It is our hope that the Congress will give the Administration proposal serious consideration so that we may accomplish our objective of strengthening the private secondary mortgage market. We believe that our proposal will provide significant benefits to homebuyers, home builders, financial institutions and other investors, while prohibiting abusive transactions and reducing the Federal Government's direct and indirect involvement in the secondary mortgage market.

Taxation of FHLMC

Consistent with the Administration's objective of fostering privatization of the secondary mortgage market, the Administration also proposes that FHLMC be made subject to Federal income taxes.

Freddie Mac is owned by the Federal Home Loan Banks, which in turn are owed by private savings and loan institutions. Freddie Mac also has authority to sell preferred stock to private shareholders. Moreover, Freddie Mac is a direct competitor of Fannie Mae in that they both purchase the same classes of mortgages for use as mortgage-backed securities. However, Fannie Mae (as well as the new wholly private issuers of mortgage-backed securities) are fully subject to Federal income tax.

The stated purpose of the Freddie Mac tax exemption, which was provided by a Senate floor amendment to the Emergency Home Finance Act of 1970, was to enable it to accumulate capital and to compete with Fannie Mae, an established entity. In addition, it was stated that Freddie Mac was not expected to make a high profit. Lastly, it was asserted that it would be unfair to tax Freddie Mac since the earnings of its stockholders, the Federal Home Loan Banks, are tax exempt.

These arguments no longer are persuasive. Freddie Mac is highly profitable and has a 14-year record of success in the secondary market. The failure to tax Freddie Mac directly benefits private thrift institutions and future preferred stockholders of Freddie Mac, who may expect to receive substantially larger dividends than if Freddie Mac were taxed. Finally, the tax exemption of Freddie Mac gives it a substantial economic advantage over its taxable competitors. When Freddie Mac was organized, the then Chairman of the Senate Banking Committee stated that the tax-exempt status of Freddie Mac should be reexamined if Freddie Mac obtained a "net advantage" over Fannie Mae. We submit that Freddie Mac now does enjoy such a net advantage.

Finally, if Freddie Mac is made taxable, appropriate provisions should be included in the legislation to insure that losses on Freddie Mac's mortgage portfolio that were accrued but not realized during its tax-exempt period will be unavailable to shelter its future income from taxation.

This concludes my prepared remarks. I would be happy to answer any questions you may have.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 7, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,202 million of 13-week bills and for $6,209 million of 26-week bills, both to be issued on November 10, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 9, 1984			26-week bills maturing May 10, 1984		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	8.80%a/	9.15%	97.776	9.00%	9.59%	95.450
High	8.84%	9.19%	97.765	9.03%	9.62%	95.435
Average	8.83%	9.18%	97.768	9.02%	9.61%	95.440

a/ Excepting 1 tender of $600,000.

Tenders at the high discount rate for the 13-week bills were allotted 80%.
Tenders at the high discount rate for the 26-week bills were allotted 91%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 236,680	$ 44,130	$ 173,720	$ 42,320
New York	11,988,190	4,716,190	12,391,560	5,294,860
Philadelphia	33,895	33,895	16,405	16,405
Cleveland	70,410	48,410	65,275	45,375
Richmond	42,345	41,345	84,685	49,695
Atlanta	47,765	47,765	35,030	34,940
Chicago	1,789,450	640,250	1,306,470	251,655
St. Louis	55,930	31,930	26,255	17,255
Minneapolis	16,360	16,360	17,060	12,060
Kansas City	52,565	52,565	43,165	43,165
Dallas	30,330	25,330	29,110	23,660
San Francisco	793,655	238,655	745,685	67,985
Treasury	265,635	265,635	309,170	309,170
TOTALS	$15,423,210	$6,202,460	$15,243,590	$6,208,545
Type				
Competitive	$13,099,725	$3,878,975	$12,661,220	$3,626,175
Noncompetitive	973,760	973,760	823,070	823,070
Subtotal, Public	$14,073,485	$4,852,735	$13,484,290	$4,449,245
Federal Reserve	1,302,125	1,302,125	1,100,000	1,100,000
Foreign Official Institutions	47,600	47,600	659,300	659,300
TOTALS	$15,423,210	$6,202,460	$15,243,590	$6,208,545

1/ Equivalent coupon-issue yield.

R-2406

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 7, 1983

RESULTS OF AUCTION OF 3-YEAR NOTES

The Department of the Treasury has accepted $6,503 million of $14,982 million of tenders received from the public for the 3-year notes, Series P-1986, auctioned today. The notes will be issued November 15, 1983, and mature November 15, 1986.

The interest rate on the notes will be 11%. The range of accepted competitive bids, and the corresponding prices at the 11% interest rate are as follows:

	Yield	Price
Low	11.00% 1/	100.000
High	11.12%	99.701
Average	11.11%	99.726

Tenders at the high yield were allotted 50%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

	Received	Accepted
Boston	$ 330,280	$ 171,280
New York	12,257,690	5,067,820
Philadelphia	48,545	48,545
Cleveland	203,250	152,250
Richmond	152,650	125,150
Atlanta	123,015	112,015
Chicago	859,685	333,685
St. Louis	161,060	141,310
Minneapolis	51,010	50,510
Kansas City	107,095	104,345
Dallas	42,880	35,380
San Francisco	640,275	156,225
Treasury	4,100	4,100
Totals	$14,981,535	$6,502,615

The $6,503 million of accepted tenders includes $1,179 million of noncompetitive tenders and $5,324 million of competitive tenders from the public.

In addition to the $6,503 million of tenders accepted in the auction process, $ 30 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,100 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.

1/ Excepting 3 tenders totaling $115,000.

R-2407

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 8, 1983

CONTACT: CHARLES POWERS
(202) 566-2041

U.S. INCOME TAX TREATIES WITH AUSTRALIA
AND NEW ZEALAND RATIFIED

The Treasury Department today announced that instruments of ratification have been exchanged between the United States and Australia and between the United States and New Zealand, bringing into force, respectively, treaties with those countries to avoid double taxation and prevent fiscal evasion with respect to taxes on income. In each case the new treaty replaces an earlier income tax treaty.

Instruments of ratification of the United States-Australia income tax treaty were exchanged in Washington on October 31, 1983, by Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Robert A. Brand and Charge d'Affaires ad interim of Australia, Geoffrey J. Price. The treaty entered into force on that date. Its provisions have effect for dividends, interest and royalties derived on or after December 1, 1983 and, for other income, for taxable years beginning on or after December 1, 1983. The prior treaty, signed in 1953, ceases to have effect for any tax for which the new treaty applies.

Instruments of ratification of the United States-New Zealand income tax treaty and accompanying protocol were exchanged in Washington on November 2, 1983 by Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Robert A. Brand, and Ambassador of New Zealand, L. R. Adams Schneider. The treaty and protocol entered into force on that date. Its provisions with respect to U.S. withholding taxes will have effect for amounts paid or credited on or after January 1, 1984, and with respect to New Zealand withholding taxes for income years beginning on or after April 1, 1984. However, the provisions of Article 10 concerning the New Zealand tax on dividends beneficially owned by a resident of the United States will apply with respect to dividends derived on or after April 1, 1982. With respect to other taxes, the provisions of the treaty have effect for U.S. taxable years beginning on or after November 2, 1983 and for New Zealand income years beginning on or after April 1, 1984. The prior treaty signed in 1948, ceases to have effect for any tax to which the new treaty applies, and ceases to have effect with respect to the Cook Islands on January 1, 1984.

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R-2408

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 8, 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 November 17, 1983. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,431 million (including the 164-day cash management bills issued June 6, 1983, in the amount of $2,507 million).

The $9,924 million of regular maturities includes $1,260 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,214 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 August 18, 1983, and to mature February 16, 1984 (CUSIP No. 912794 EP 5), currently outstanding in the amount of $6,265 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 May 19, 1983, and to mature May 17, 1984 (CUSIP No. 912794 EG 5), currently outstanding in the amount of $7,795 million, the additional and original bills to be freely interchangeable.

<u>The Treasury may alter the size or timing of these auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of November 14, 1983.</u>

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 17, 1983. 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.

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-2409

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, November 14, 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 November 17, 1983, in cash or other immediately-available funds or in Treasury bills maturing November 17, 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
Wednesday, November 9, 1983

TREASURY SECRETARY REGAN SWEARS-IN FIRST PRESIDENTIAL ADVISORY COMMITTEE ON WOMEN'S BUSINESS OWNERSHIP

Treasury Secretary Donald T. Regan today swore in ten members of the first President's Advisory Committee on Women's Business Ownership, established to strengthen private sector assistance for women business owners.

"Women business owners are the fastest-growing segment of the small business community," Secretary Regan told the committee and guests at a brief White House ceremony in the Roosevelt Room. There are more than three million women-owned businesses, Regan said, generating more than $40 billion in annual gross receipts.

The number of women self-employed grew 69 percent between 1972 and 1982, according to the Bureau of Labor Statistics. Nearly half of all women-owned firms, responsible for three-fifths of all new job growth, are in the service sector.

The advisory committee, announced by President Reagan last summer, will provide advice to the President and the Small Business Administration on how women business owners can increase their access to financial, educational, and procurement opportunities. The committee members will also review the status of women-owned businesses.

"We are delighted to serve the President in launching this major new initiative," said Angela M. Buchanan-Jackson, former U.S. Treasurer, whom the President selected as chairperson of the committee. "It will be our goal to effectively promote for women business owners equitable access to financial, educational, and procurement opportunities both in the private and public sectors of our economy," she said.

The advisory committee will also provide advice to the President and the Small Business Administration on the status of women-owned businesses. The committee is composed of business leaders, representing various industries.

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R-2410

PRESIDENT'S ADVISORY COMMITTEE
ON WOMEN'S BUSINESS OWNERSHIP

Angela M. (Bay) Buchanan-Jackson
Tustin, Calfironia

Robert R. McMillan
Vice President/Public Affairs
Avon Products Inc.
New York, New York

Evelyn Echols
President
International Travel Training
Courses Inc.
Chicago, Illinois

Beth Davis Rogers
President
Davis Pacific Corporation
Santa Monica, California

Helen Sanchez-Usitalo
Financial Consultant
Sanchez-Usitalo Associates
Dallas, Texas

Ruth Trotter
President
The Stork Shop, Inc.
Memphis, Tennessee

Maeley Tom
Chief Administrative Officer
Claifornia Assembly
Sacramento, California

Susan Sarvis
President
LTS, Inc.
Manchester, New Hampshire

Patricia Nettleship
President
North Pacific Construction Co.
Santa Monica, California

Jean Hails
President
Hails Construction of Georgia
Roswell, Georgia

TREASURY NEWS

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

November....1983

For further information
contact Bob Levine
(202) 566-2041

THE INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS

The main features of the new Arrangement, which took effect on October 15, 1983, are (1) that minimum matrix interest rates are linked to market rates, with semiannual adjustments; (2) that the minimum matrix rates to developing countries have been temporarily lowered but will be brought back up closer to commercial levels over a period no longer than 2-1/2 years; and (3) that for currencies with domestic commercial rates lower than the matrix, commercial benchmark rates have been defined which will serve as minimum official lending rates for those currencies.

Details are as follows:

1. Base Rate

-- Matrix rates are linked to the SDR-weighted average of the yields on long-term (approximately 10-year) government bonds on the secondary market. This base rate is weighted as follows: U.S. dollar, 42%; German mark, 19%; French franc, 13%; Japanese yen, 13%, and pound sterling, 13%.

-- These interest rates are published monthly in The OECD Financial Statistics' Table R2, line II, 2.b.l. In addition, the U.S. dollar rate is also published monthly in the Federal Reserve Bulletin on page A28, Table 1.35, line 30.

2. New Interest Rates

-- Under the new guidelines the minimum rates for industrialized countries (Category I) remain the same, but the rates charged to the advanced developing countries (Category II) and poorer developing countries (Category III) will be temporarily decreased.

-- Effective October 15, 1983, the new Arrangement matrix interest rates are:

Borrowing Country Category	Repayment Term (in percent) 2-5 yrs.	>5-8.5 yrs	>8.5-10 yrs
Category I	12.15	12.40	n.a.
Category II	10.35(10.85)[1]	10.70(11.35)	n.a.[2]
Category III	9.50(10.00)	9.50(10.00)	9.50

(1) Numbers in parentheses were rates in effect 7/6/82-10/15/83.

(2) Ten-year terms are permitted for countries moved into Category II in 1982, at the same interest rate as for credits in the 5 to 8.5 year range.

3. Automatic Interest Rate Adjustments

-- Arrangement rates will be adjusted semiannually on January 15 and July 15 to reflect changes of half a percent or more in the average base rate of the preceeding month, as compared to the previous period's average monthly base rate. (The recalculated Arrangement rates are rounded to the nearest five basis points.)

-- The first adjustment, therefore, might occur in January 1984. Subsequent adjustments will be based on changes between the June-December-June, etc., monthly averages.

4. Transition to Higher Interest Rates

-- Participants have agreed to specific interest rate increases for developing countries, which will be phased in over a period no longer than 2-1/2 years. This will bring Category II rates approximately to commercial levels and the Category III rates will be just under the base rate.

-- The schedule for phasing in these rate increases is as follows:

	for Cat. II (2-5 yrs) and all Cat. III	for Cat. II (over 5 years)
July 1985	+ 25 basis points	+ 30 basis points
Jan. 1986	+ 25 basis points	+ 25 basis points
July 1986		+ 10 basis points

-- The agreed-upon formula also provides for acceleration to these higher interest rates, if the base rate declines. The matrix will be decreased by only half of the decline in the base rate, with the other half netted against the scheduled increases.

Sample Transition to Higher Interest Rates:

-- Here is an example of how this phase-in and the automatic adjustment operates. The phase-in schedule differs slightly for (1) the Category II (over 5 year) rate and (2) the Category II (2-5 year) and Category III rates. (Refer to the table at the top of this page for the phase-in schedules.) There is no phase-in of higher rates for Category I.

-- Please refer to the attached table, "Sample Transition to Higher Rates," which uses the Category II (over 5 year) rate to illustrate the procedure described hereafter.

ON JANUARY 15, 1984

- Assume the December 1983 average base rate increases by 60 basis points compared to the May 1983 (starting point) average.

- All matrix rates are adjusted upwards by the full amount of the increase in the base rate, i.e., by 60 basis points.

ON JULY 15, 1984:

- Assume the June 1984 average base rate decreases by 100 basis points compared to the December 1983 average.

Category I

- The Category I matrix rates are reduced by 100 basis points on July 15, 1984.

Category II (2-5 year) and Category III

- The Category II (2-5 year) and III matrix rates are decreased by only half the amount of the decline in the base rate, i.e., by 50 basis points.
- The other half of the decline in the base rate is applied against the July 1985 and the January 1986 scheduled increases of 25 basis points each.
- Thus, for the Category II (2-5 year) and Category III rates, the transition to higher interest rates is completed.
- These matrix rates will be adjusted fully to reflect future increases or decreases of 50 basis points or more in the base rate.

Category II (over 5 year)

- The Category II (over 5 year) rate is decreased by only half the amount of the decline in the base rate, i.e., by 50 basis points.
- The other half of the decline in the base rate (50 basis points) is applied against the next scheduled increase, with the remainder applied against the last scheduled increase.
- For the Category II (over 5 year) rate, the transition to higher rates is accelerated by drawing the 30 basis points from the next adjustment period, scheduled for July 1985 (Column B, row 5), and then working back from the last adjustment period (the 10 basis points from the July 1986 period, Column B, row 7 and 10 basis points of the scheduled 25 basis point adjustment scheduled for January 1986, Column B, row 6). There are still 15 basis points remaining to be phased in.

ON JANUARY 15 1985:

- Assume that there is no change in the December 1984 base average rate compared to the June 1984 average.
- Since there is neither a change in the base rate nor a scheduled increase due at this period, there is no adjustment to the matrix.

ON JULY 15 1985:

- Assume the June 1985 average base rate increases by

50 basis points compared to the December 1984 average.

Category I

- The Category I matrix rates are increased by 50 basis points.

Category II (2-5 year) and Category III

- The 25 basis point adjustment scheduled for this period already took effect in July 1984. (In fact, the transition to higher rates was completed for these matrix rates in July 1984.)
- Thus, matrix rates are increased by only 50 basis points to reflect the increase in the base rate.

Category II (over 5 year)

- The 30 basis point increase scheduled for this period already took effect in July 1984.
- Thus, the Category II (over 5 year) rate is increased only by 50 basis points to reflect the 50 basis point increase in the base rate.
- Since the scheduled increases for this period have already taken place, and since acceleration occurs only when the base rate decrease, there is no further increase at this period.

ON JANUARY 15 1986:

- Assume the December 1985 average base rate increases by 50 basis points compared to the June 1985 average.

Category I, II (2-5 year) and III

- These matrix rates are increased by 50 basis points.

Category II (over 5 year)

- 10 basis points of the scheduled 25 basis point increase already took effect in July 1984.
- Thus, the Category II (over 5 year) rate is increased by 65 basis points to reflect (a) the 50 basis point increase in the base rate and (b) the remaining 15 basis points of the scheduled 25 basis point increase.

- This completes the transition to a higher Category II (over 5-year) rate.
- All matrix rates will be adjusted fully to reflect future increases or decreases of 50 basis points or more in the base rate.

<u>ON JULY 15 1986</u>:

- Assume the June 1986 average base rate decreases by 50 basis points compared to the December 1985 average.
- All matrix rates are decreased by 50 basis points.

5. <u>Low Interest Rate Currencies</u>

-- Commercial interest reference rates (CIRRs) have been adopted to serve as minimum official lending rates for currencies with domestic commercial rates below, or nearly below, the Arrangement matrix rates.

-- These CIRRs (1) are differentiated by currency; (2) reflect commercial interest rate levels, and (3) are adjusted monthly to reflect market interest rate movements.

-- In most cases, the CIRRs are defined as a margin over monthly average government borrowing costs of 5-year fixed interest rate funds.

-- The CIRRs are updated by the OECD Secretariat before the 10th of each month to reflect the previous month's average interest rate data. These updated CIRRs take effect on the 15th of each month.

-- The CIRRs now serve as the minimum rate for several currencies; e.g., current CIRRs (valid till November 14, 1983) are 8.30% for the Japanese yen, 9.65% for the German mark, and 7.05% for the Swiss franc. Current CIRRs are available from the U.S. Treasury Department on request.

-- An additional 0.20 percent margin will be charged on official export credits in these low interest rate currencies.

-- CIRRs have also been defined for the U.S. dollar, pound sterling, and other currencies with interest rates now slightly higher than the matrix rates.

-- Technical work will continue (1) to determine the CIRRs for the currencies of other participating countries, and (2) to refine the existing CIRRs as we gain experience with them.

Sample Transition to Higher Rates in the Arrangement on Export Credits

Two Examples of How Transition to Higher Rates Would Work, Using the Category II (over 5-year term) Matrix Rate
(Amounts in Percent)

Example A: A Decline in Base Rates Allows Acceleration of the Scheduled Interest Rate Increases

	Scheduled Adjustment Dates	Column A Sample Changes in the Base Rate	Column B Fixed Schedule of Interest Rate Increases	ACCELERATION EFFECT[1] Accelerated Adjustment of Scheduled Increases in Column B (Rows 5-7) From Row 5	Row 7	Row 6		Net Change	Category II Sample Minimum Rate
1.	Oct 15, 1983	Start	0	0	0	0	=	0	10.70
2.	Jan 15, 1984	+0.60	0	0	0	0	=	+0.60	11.30
3.	July 15, 1984	-1.00	0	+0.30	+0.10	+0.10	=	-0.50	10.80
4.	Jan 15, 1985	0	0	0	0	0	=	0	10.80
5.	July 15, 1985	+0.50	+0.30	-0.30	0	0	=	+0.50	11.30
6.	Jan 15, 1986	+0.50	+0.25	0	0	-0.10	=	+0.65	11.95
7.	July 15, 1986	-0.50	+0.10	0	-0.10	0	=	-0.50	11.45
8.	Net Changes	+0.10	+0.65	0	0	0	=	+0.75	+ 0.75

[1]The point is to accelerate the adjustment period if interest rates decline. Half of the decrease in the base rate is applied against the next scheduled interest rate increase, with any remainder applied against the last scheduled interest rate increase.

Example B: NO Decline in Base Rates, Preventing Acceleration of the Scheduled Interest Rate Increases

	Scheduled Adjustment Dates	Sample Changes in the Base Rate	Fixed Schedule of Interest Rate Increases		Net Change	Category II Sample Minimum Rate
1.	Oct 15, 1983	Start	0	=	0	10.70
2.	Jan 15, 1984	+0.60	0	=	+0.60	11.30
3.	July 15, 1984	0	0	=	0	11.30
4.	Jan 15, 1985	+0.50	0	=	+0.50	11.80
5.	July 15, 1985	+0	+0.30	=	+0.30	12.10
6.	Jan 15, 1986	+0.50	+0.25	=	+0.75	12.85
7.	July 15, 1986	+0.00	+0.10	=	+0.10	12.75
8.	Net Changes	+1.60	+0.65	=	+2.25	+2.25

Source: United States Treasury Department

TREASURY NEWS

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

OPENING STATEMENT
RICHARD H. SHRIVER
ASSISTANT SECRETARY OF THE TREASURY
(ELECTRONIC SYSTEMS AND INFORMATION TECHNOLOGY)
BEFORE THE
COMMITTEE ON CRIME
HOUSE COMMITTEE ON THE JUDICIARY
NOVEMBER 10, 1983

Mr. Chairman and Members of the Subcommittee:

I am pleased to be with you today to discuss threats to this country's financial systems stemming from credit card and computer fraud. Industry witnesses called by this Subcommittee will no doubt describe the large and growing losses resulting from counterfeited cards and improper use of lost or stolen cards. The thrust of my testimony will be on the rapid development of computer and communications technologies in the financial marketplace and how these could lead to even more sophisticated and costly threats to financial systems. At the completion of this prepared testimony, I will be pleased to answer any questions that you or the Members may have.

Current Problems

Some recent figures I have seen indicate that over $70 billion in sales is now generated each year through use of bank cards. While the number of new card issuances seems to be leveling out, banking industry losses from illegal use of cards and credit card account information continues to show a staggering increase. For example, new accounts at one of the largest bank card associations grew by only 3% in 1982, while losses due to counterfeiting grew by 1,460%. The American Bankers Association puts the total annual loss for counterfeiting at $40M, plus another $200M for illegal use of stolen cards. In addition, losses from cards intercepted in the mail or from lost

R-2411

cards represented almost 50% of the total annual loss incurred by one of the major card systems in 1982. However, as serious as these current loss figures are, I am concerned that a greater long-term threat may be improper and illegal financial transactions effected by electronic means.

Underlying Trends

Most people are unaware of the significant volume of electronic funds transfers that are now taking place. A large commercial bank may transfer $30-60 billion each day, while the Federal Reserve transfers electronically an amount equivalent to the entire national debt every four days. At Treasury, approximately a quarter of our 800 million financial transactions per year are now completed electronically. Treasury's goal is to develop, as quickly as possible, electronic mechanisms to ultimately handle 80% of our payment volume. Our experience parallels that of the private sector -- payment by check is becoming a very expensive way to move money, especially when compared to much less costly electronic means. At Treasury, we estimate that it costs upwards of $0.50 to process a check, while we can complete an electronic funds transfer for about $0.20.

Societal movement toward acceptance of completing financial transactions by electronic means can be anticipated from looking at some interesting projections. By 1985, it is estimated that 10% of the 88 million American households will have home computers. By 1990, this percentage is expected to rise to 33% (32 million out of 96 million households). The number of electronic financial transactions completed through home terminals is expected to grow from 900 million in 1985 to over 3 billion in 1990, while financial institutions offering in-home banking services will grow from 1,000 to 6,000. In addition to banking, home computers combined with cable TV hook-ups will be used to support an entirely new approach to shopping at home, the video equivalent of mail order catalog shopping.

Automated teller machines, which are now used primarily to dispense cash, can also accept deposits, effect transfers between accounts and complete queries about account balances. At the end of 1981, it was estimated that there were 25,000 ATM's in operation, a figure that could easily reach 120,000 by 1990.

Some postulate that point-of-sale transactions may be tomorrow's replacement for checks in completing retail sales. With movement toward electronic cash registers and store-wide computer controlled register systems, the retail community is laying the groundwork for direct telecommunications links between retail outlets and customer accounts in banks. The present lack of a consolidated network is all that is slowing development of the point-of-sale concept. At present, it is just too costly for merchants to interface with a host of different banks and credit card companies. This problem may vanish in the next two to three years.

With regard to businesses, 100% of all firms with over $50M in annual revenues are expected to use computers in making their financial transactions by 1990, up from an estimated 90% in 1983. Medium-sized firms having between $1M and $50M in annual revenues are expected to show an increase from 10% to 95% during the same period. Even 60% of smaller businesses, those with annual revenues of less than $1M, are expected to use computers for financial transactions by 1990.

Much debate has dealt with the question of whether or not we are moving toward a cashless society. This debate tends to obscure the following points:

- o While the total number of cash transactions is high, the combined dollar value of cash transactions is actually quite low.
- o Check use is expensive, and becoming more so.
- o A computer and telecommunications system infrastructure that will support less expensive and much broader electronic financial transactions processing will soon be widely available; and,
- o As a result, crime patterns could show a pronounced shift from bad checks and credit transactions completed through use of lost, stolen or counterfeited pieces of plastic toward fraudulent transactions committed through electronic means.

Potential Financial System Threats

Public awareness of computer and telecommunications system vulnerability has been raised recently by well-publicized dial-up computer system break-ins. A few weeks ago I testified at two Congressional hearings on computer and telecommunications systems security. Even this recent public and Congressional interest, however, could still be understating the possible extent of financial system vulnerability in the future.

Work done by one research organization points toward increasing threats to financial computer systems if valid financial system security concerns are not addressed. Mr. Donn B. Parker, of SRI International, has evaluated a wide range of potential threats and developed the following matrix comparing nine threat sources:

Threat	Past	Future
Amateur White-Collar Criminals	High	Low
Deranged Individuals	Low	Medium
Unethical Business Enterprises	High	High
Career Criminals	Low	Low
Organized Criminal Groups	Low	Medium
Extreme Economic Advocates	Low	Medium
Extreme Religious Advocates	Low	Medium
Extreme Political Advocates	Medium	High
Foreign Powers	Low	High

Past Threat = All Computer Crime
Future Threat = Massive Electronic Funds Transfer Losses

While I might personally question Mr. Parker's evaluation of the future threat to electronic funds transfer systems from organized crime as only being medium, I believe we could safely summarize his analysis by saying that in the future, greater reliance on electronic means for making financial transactions will bring more vulnerability if we do not begin paying much more attention to security precautions covering our financial system computers, the telecommunications networks that link them together, and the employees who work with these systems.

What Can Be Done

I do not intend to comment on specific legislation now pending before the Congress. The law enforcement officials who will be testifying before this Subcommittee are far better qualified to deal with the specifics of proposed legislation. Generally, I favor any enforcement tool, whether statutory or otherwise, that makes it easier to investigate and prosecute criminals who commit offenses through illegal use of computerized financial systems or illegal use of the means, such as credit cards, of getting financial transaction data into computerized financial systems.

A rather disturbing observation, however, involves the sentencing of those convicted of computer fraud. An average bank robbery nets around $20,000. If caught, bank robbers are prosecuted around 90% of the time and, if convicted, will on the average be sentenced to 4-6 years in prison. The average crime involving electronic funds transfer is somewhere around $500,000. If caught, such perpetrators are prosecuted only 15-20% of the time and, if convicted, can expect to spend only 4-6 months in prison. This problem is only partially due to limitations in our judicial system, as financial institutions are often reluctant to press charges.

Of course, the credit card and banking industry cannot sit back in the face of such current and potential future threats and expect the Federal Government to solve the entire problem through legislation. Tighter security measures are needed and are apparently now being stressed by the industry.

Experts have stated that over 80% of current computer and electronic funds transfer crimes could be prevented if comprehensive security measures in the following categories are implemented:

- o Organizational security;
- o Access control;
- o Personnel security;
- o Hardware security;
- o Software security;
- o Data controls; and,
- o Terminal security

Having worked around computer and telecommunications systems virtually my entire working life, I feel that development of improved systems to verify and authorize computer and credit card transactions would go a long way toward reducing threats involving individual financial transactions. At the systems level, much greater use of sophisticated system entry security measures and data encryption may be needed to keep intruders with criminal intent out of financial computer and telecommunications systems. In short, to help ensure that future threats are contained, we will need an investment by industry in hardened systems, a stronger investigative and prosecutorial presence by law enforcement, and a willingness by consumers to tolerate the minor inconvenience that more emphasis on financial system security measures might bring.

This concludes my prepared Statement. Mr. Chairman, I would be pleased to answer any questions you or the Members might have.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE

November 9, 1983

RESULTS OF AUCTION OF 10-YEAR NOTES

The Department of the Treasury has accepted $5,252 million of $12,292 million of tenders received from the public for the 10-year notes, Series D-1993, auctioned today. The notes will be issued November 15, 1983, and mature November 15, 1993.

The interest rate on the notes will be 11-3/4%. The range of accepted competitive bids, and the corresponding prices at the 11-3/4% interest rate are as follows:

	Yield	Price
Low	11.80%	99.711
High	11.86%	99.366
Average	11.84%	99.480

Tenders at the high yield were allotted 31%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

	Received	Accepted
Boston	$ 152,236	$ 17,236
New York	10,214,624	4,395,215
Philadelphia	7,600	7,600
Cleveland	44,786	38,336
Richmond	44,801	29,341
Atlanta	31,076	25,352
Chicago	692,821	208,256
St. Louis	83,447	75,687
Minneapolis	18,318	17,318
Kansas City	26,926	24,926
Dallas	17,060	12,060
San Francisco	955,791	398,421
Treasury	2,174	2,174
Totals	$12,291,660	$5,251,922

The $5,252 million of accepted tenders includes $584 million of noncompetitive tenders and $4,668 million of competitive tenders from the public.

In addition to the $5,252 million of tenders accepted in the auction process, $50 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $700 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-2412

TREASURY NEWS

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

STATEMENT OF THE HONORABLE JOHN M. WALKER, JR
ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)
BEFORE A JOINT HEARING OF THE
COMMISSION ON SECURITY AND COOPERATION IN EUROPE
AND THE
HOUSE SUBCOMMITTEE ON HUMAN RIGHTS
AND INTERNATIONAL ORGANIZATIONS
COMMITTEE ON FOREIGN AFFAIRS
NOVEMBER 9, 1983

Enforcement of Prohibitions Against the Importation of Goods Produced Through Forced Labor

Mr. Chairman, Members of the Commission and Subcommittee:

I appreciate the opportunity to appear before you today to participate in the discussion of the enforcement of the United States statute prohibiting the importation of goods produced with the use of forced labor. The issue of the importation of goods produced by Soviet forced labor first came to the Treasury Department's attention when Commissioner von Raab of the Customs Service submitted for Treasury review his preliminary finding that certain articles from the Soviet Union that are produced with the use of forced, convict or indentured labor are actually being, or are likely to be, imported into the United States.

Shortly after the Commissioner's finding was forwarded to Treasury, we began an examination of the legislative history of the statute, section 307 of the Tariff Act of 1930, and the past practice in enforcing the statute. From this review, we concluded that past enforcement actions -- and instances when enforcement was considered but not executed -- have been infrequent and inconsistent.

Consequently, Treasury began a number of actions that are intended to ensure that the law is enforced from this point forward in an even-handed manner, on the basis of well-reasoned standards and adequate factual support. Thus, the Customs Service, in concert with Treasury's General Counsel, is currently developing a clear set of standards that Treasury can apply consistently in this case of Soviet forced-labor

products and in future cases that may arise under the statute. Concurrently, with this development of standards, we requested the Central Intelligence Agency to conduct a more intensive examination of the factual basis which would support enforcement of the statute. Together, the products of these two endeavors will serve as the basis for a decision by the Treasury Department on the review of the Commissioner's preliminary finding and in any final determination on the issue of Soviet forced-labor imports.

The Treasury Department is fully aware that enforcement of section 307 may carry with it international trade and foreign policy consequences both directly with the Soviet Union and collaterally with our allies and other nations throughout the world. Furthermore, we are not turning a blind eye toward the potential economic problems that enforcement could produce for United States businesses. Concerns such as these prompted Secretary Regan to inform the members of the Senior Inter-Agency Group on International Economic Policy -- a Cabinet-level committee -- of Customs' actions and the course Treasury intends to follow. Through that mechanism, Treasury will continue to consult the other interested elements of the Executive Branch and to advise them of its decisions in this matter.

Let me emphasize that Treasury is committed to enforcing this law where facts and circumstances warrant, as is true for all laws under its jurisdiction.

I would now like to introduce Commissioner von Raab, who will make a brief statement, after which we would be pleased to answer any questions you may have.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 10, 1983

RESULTS OF AUCTION OF 29-3/4-YEAR TREASURY BONDS
AND SUMMARY RESULTS OF NOVEMBER FINANCING

The Department of the Treasury has accepted $ 4,254 million of $ 9,380 million of tenders received from the public for the 12% 29-3/4-year Bonds of 2008-2013, auctioned today. The bonds will be issued November 15, 1983, and mature August 15, 2013.

The range of accepted competitive bids was as follows:

	Yield	Price
Low	11.75%	101.971
High	11.82%	101.387
Average	11.80%	101.553

Tenders at the high yield were allotted 37%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 122,530	$ 9,270
New York	7,602,012	3,587,762
Philadelphia	2,594	2,594
Cleveland	24,544	15,134
Richmond	16,415	9,470
Atlanta	25,873	25,143
Chicago	578,018	117,418
St. Louis	63,003	62,503
Minneapolis	15,201	11,941
Kansas City	22,632	22,632
Dallas	1,294	1,294
San Francisco	905,880	388,100
Treasury	390	390
Totals	$9,380,386	$4,253,651

The $ 4,254 million of accepted tenders includes $ 528 million of noncompetitive tenders and $ 3,726 million of competitive tenders from the public.

In addition to the $ 4,254 million of tenders accepted in the auction process, $434 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

SUMMARY RESULTS OF NOVEMBER FINANCING

Through the sale of the three issues offered in the November financing, the Treasury raised approximately $10.2 billion of new money and refunded $8.1 billion of securities maturing November 15, 1983. The following table summarizes the results:

	New Issues					
	11% Notes 11/15/86	11-3/4% Notes 11/15/93	12% Bonds 8/15/08-2013	Total	Maturing Securities Held	Net New Money Raised
Public	$6.5	$5.3	$4.3	$16.0	$5.9	$10.1
Government Accounts and Federal Reserve Banks	1.1	0.7	.4	2.2	2.2	-
Foreign Accounts	(*)	(*)	-	.1	-	.1
TOTAL	$7.6	$6.0	$4.7	$18.3	$8.1	$10.2

* $50 million or less.
Details may not add to total due to rounding.

R-2414

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Thursday, November 10, 1983

JOINT PRESS ANNOUNCEMENT

Secretary Regan and Finance Ministeer Takeshita have had a number of candid and cordial exchanges of views in recent weeks on a variety of issues of mutual interest. They have agreed that both countries:

1. Will pursue appropriate monetary and fiscal policies that will promote sustained real economic growth with low inflation, reduced interest rates, and higher productive investment.

2. Will cooperate closely in dealing with LDC debt problems in order to promote effective adjustment on the part of debtor countries and the flow of financing necessary to support those adjustment efforts.

3. Consistent with the understandings reached at Williamsburg with the other Summit countries regarding exchange rate policy, will consult more closely on exchange market developments and undertake coordinated intervention to counter disorderly market conditions.

In addition, both Ministers agreed that open, liberal capital markets and the free movement of capital are important to the operation of an effectively functioning international monetary system.

Minister Takeshita stated that the Japanese Ministry of Finance will assure the prompt and thorough implementation, following due procedures, of the measures listed in the "Comprehensive Economic Measures" of October 21, 1983, which would further liberalize Japan's capital markets, internationalize the yen, and allow the yen to more fully reflect its underlying strength. In particular, the Ministry of Finance announced its decisions to:

-- Eliminate the real demand rule in forward exchange transactions, effective April 1, 1984.

-- Submit a bill in the next ordinary Diet session starting from December 1983, to reform the designated company system, after consultation with agencies concerned.

R-2415

-- Submit a bill in the next ordinary Diet session to enable issuance of foreign currency denominated national bonds abroad.

-- Expedite the study concerning establishment of a yen-denominated bankers' acceptance market.

In addition, the Japanese Ministry of Finance announced that it will:

-- Seek to lower the minimum denomination of CDs to yen 300 million from its current level of yen 500 million, effective January 1, 1984.

-- Seek to enlarge further the ceiling on each bank's CD issues, effective April 1, 1984.

-- Ease guidelines on the issue of Euro-yen bonds by residents, effective April 1, 1984.

-- In this connection, the withholding tax on interest earnings on Euro-yen bonds held by non-residents will be reviewed, having due regard to maintaining proper taxation including the withholding tax system.

Minister Takeshita also confirmed his policy stance on the occasion of announcing the "Comprehensive Economic Measures" that "we, as one of the major industrial nations, will continue to take positive steps towards the internationalization of the yen and the liberalization of our financial and capital markets."

In reply to questions by Secretary Regan, Minister Takeshita stated that there are no discriminatory restrictions under Japanese laws on the acquisition of Japanese banks by foreign banks. He stated that the banking laws governing acquisitions by foreign banks are identical with those governing acquisitions by domestic banks.

Secretary Regan welcomed the announcement of these measures indicating that they represent significant progress by the Government of Japan in its efforts to liberalize its capital markets and internationalize the yen, and would make an important contribution to the functioning of foreign exchange markets and the world trade and financial system.

In addition, Secretary Regan announced that the U.S. Treasury will:

-- Fully take into account the concerns of the Japanese authorities in its review of the issues related to unitary taxation.

-- Welcome the issuance of Japanese Government guaranteed bonds in the U.S. market, with or without a currency swap.

-- Pursue as quickly as possible a reduction of the U.S. budget deficit through additional measures to reduce government spending.

-- Strive for early passage of the legislation enabling the U.S. to consent to the increase in its IMF quota.

-- Attempt to agree with other IDA donors on the next replenishment as soon as possible.

Minister Takeshita and Secretary Regan agreed that further progress on these matters is desirable. To that end, they agreed that the Japanese Ministry of Finance and the U.S. Treasury Department would establish a joint ad hoc group of financial authorities on yen/dollar exchange rate issues. The purpose of the group would be to:

-- Monitor U.S. and Japanese progress in implementing the agreed upon measures, and to develop and implement additional steps, such as increasing the use of yen in denominating Japanese exports.

-- Strengthen mutual understanding and to establish a common recognition of the current state of the yen/dollar rate and its determinants.

This ad hoc group would be co-chaired by Finance Minister Takeshita and Treasury Secretary Regan, with a working group at the Under Secretary level. The working group will meet by February 1984, and submit a report to the Chairmen by Spring 1984. Minister Takeshita and Secretary Regan agreed to continue to be in close contact on these and other economic and financial issues.

THE WHITE HOUSE
Office of the Press Secretary
(Tokyo, Japan)

For Immediate Release November 10, 1983

REMARKS OF THE PRESIDENT AND PRIME MINISTER YASUHIRO NAKASONE IN JOINT STATEMENT

Prime Minister's Official Residence
Auditorium
Tokyo, Japan

2 35 P.M. JST

PRIME MINISTER NAKASONE. For the people and government of Japan as well as for myself. it is indeed a great pleasure to welcome the President of the United States of America and Mrs. Reagan as State guests.

Yesterday and today, the President and I had very productive meetings covering a wide range of subjects Through these meetings, we reconfirmed the importance for Japan and the United States, two countries sharing the common ideas and values of freedom and democracy of promoting further cooperation toward peace and prosperity of the world.

The President has a clear recognition of the importance of the Asian and the Pacific region. His present visit to Japan and Republic of Korea and his planned visit to China next year amply testify to this fact, together with his visit to the countries in Southeast Asia, which I'm sure will be rescheduled in the future. The economic dynamism in the Asian and Pacific region is one of the central elements in the expansion of the world economy. Thus, the President and I are in full agreement that we should continue to make efforts for the further development of the Asian and the Pacific region.

Mr. President. I issued on November 1st the Tokyo Statement jointly with Chancellor Kohl of the Federal Republic of Germany in line with the spirit of the political statement adopted at the Williamsburg Summit in May this year declaring that we should maintain the unity and solidarity among the western countries in our joint endeavor in pursuit of freedom, peace, and stability of the prosperity of the world economy and of the development in the Third World.

As I know the recent events of increasing tension in the East West relations, as well as frequent occurrences of regional disputes and violence in various parts of the world, I am worried that the peace in the world could be gravely threatened if such trends continue and amplify themselves Under such circumstances, I firmly believe that the countries of the world should renew their resolve for the maintenance of freedom, peace, and stability for the revitalization of the world economy and for the world prosperity of the peoples of the world.

I, further, believe that the rational dialogues and negotiations should be conducted to solve such international conflicts and disputes, and that the parties concerned should spare no effort in taking step-by-step measures or gradual approach in pursuits of ultimate goals, and should carry on steady and realistic endeavors. This I consider is particularly pertinent to the arms control negotiations.

The Western countries should stand firmly in unity and solidarity for freedom and peace, and should not hesitate to bear any hardships in upholding this cause. All these points are included in the Tokyo statement. It is, indeed truly significant, Mr. President, that you have fully endorsed this statement in our meeting.

The President and I had exchanges of views on East-West relations with emphasis on the question of arms control and on the situation in such areas as Asia, the Middle East. and Central America. With regard to the INF negotiations in particular, it was reconfirmed that the negotiations should not be conducted at the sacrifice of the Asian region, but should be conducted on a global basis, taking the Asian security into consideration.

With respect to the recent bombing in Burma, the very act of terrorism, we agree that it should be strongly condemned as an inexcusable conduct in challenge of world peace and order and that continued efforts must be made to bring about lasting peace and stability on the Korean peninsula. On the Middle East, I expressed my deep appreciation for the role played by the multinational forces for stabilizing the situation in Lebanon.

The Japan-U.S. security arrangements are the foundation of the peace and security of Japan and the Far East I wish to express that Japan will continue her efforts towards further strengthening the credibility of the Japan-U.S. security arrangements. With respect to the improvement of our defense capability, I wish to make further efforts along the lines of the Joint Communique of May, 1981.

As to the international economy, the President and I reconfirmed -- in line with the Declaration of the Williamsburg summit -- the importance of obtaining sustained, non-inflationary growth of the world economy, of rolling back protectionism, and of lowering the prevailing high interest rates. We consider them important, together with extending financial cooperation, in order to alleviate the plight of the developing countries, which are suffering from accumulated debts.

MORE

With regard to bilateral economic issues, we acknowledge the achievements made thus far and agree to continue our efforts for the solution of the remaining issues. In this context, I highly appreciated the pledge by the President to combat protectionism in the United States. The President and I are in full agreement on the importance of the yen-dollar issue. We have agreed on establishing consultative fora on exchange rate issues and investments. In this connection, I asked for continued U.S. efforts to lower U.S. interest rates.

The President and I have also underscored the importance of greater two-way investment flows between our two countries and I expressed my concern that the unitary method of taxation is becoming a serious impediment to the Japanese investment in the United States. I stressed the importance of promoting the preparations of a new round of multilateral trade negotiations in order to consolidate the free trading system and to inject renewed confidence in the world economy. I am very glad that the President has strongly supported my view. We intend to call on other countries to join in our efforts.

Mr. President, in the present international situation, you are shouldering enormous global responsibility. I will, on my part, make as much contribution as possible to the peace and prosperity of the world. Thank you very much. (Applause.)

THE PRESIDENT: On behalf of the American people and our government, I would like to thank His Imperial Majesty the Emporor, Prime Minister Nakasone and the government and people of Japan for the generous and warm reception that you have extended to my wife Nancy, myself and my staff during our trip to your country.

Prime Minister Nakasone, as you've been told, have just completed two days of very productive discussions on a wide range of bilateral issues and global affairs. As leaders of two great Pacific nations, we're guardians of a strong, rich and diverse relationship. Japan and America are bound by shared values of freedom, democracy and peace. We're committed to great future cooperation across the broad spectrum of political economic security, educational culture and scientific affairs. I have come as a friend of Japan seeking to strengthen our partnership for peace, prosperity and progress. I will leave Japan confident that our partnership is stronger.

MORE

I will leave Japan confident that our partnership is stronger than before and confident that we're giving birth to a new era in Japanese-American relations. We have agreed to move forward with an agenda for progress by drawing upon the great well of talent, drive, determination and creativity of our free peoples. We welcome Japan's more assertive role as a fellow trustee of peace and progress in international economic and political affairs.

We have discussed global issues and we hold many similar views on opportunities for cooperation. The principles that Prime Minister Nakasone has enunciated as the Tokyo Statement are principles that I fully endorse. Together we have no greater responsibility than to make our world a safer place.

There are serious threats to peace on the Korean peninsula, in the Middle East, in the Caribbean and over the northwestern Pacific. Also, the attitude on the part of our adversary at the negotiating table on arms talks is at odds with the will of the world to reduce the weapons of war and build a more stable peace.

I conveyed to the Prime Minister my satisfaction that our mutual security relationship is proceeding smoothly. Japan is host to 45,000 American troops and our bases in Japan, made possible by the Treaty of Mutual Cooperation and Security, are essential not only to the defense of Japan, but also contribute to peace and prosperity in the Far East.

As for Japan's defense efforts, the United States remains convinced that the most important contribution Japan can make toward the peace and security in Asia is for Japan to provide for its own defense and share more of the burden of our mutual defense effort.

During our discussions on arms control, I assured Prime Minister Nakasone that we seek global reductions in the Soviet's intermediate-range SS-20's to the lowest level possible.

The United States will take no action in the intermediate nuclear forces negotiations that adversely affects the security of Asia. We agreed on the urgency of achieving consensus on comprehensive international safeguards to prevent the spread of nuclear weaponry.

Prime Minister Nakasone and I discussed Japan and America's compelling international economic responsibilities as spelled out at the Williamsburg Summit. Together we must press for continuing

MORE

liberalization of the international trade and financial system, fight protectionism, promote economic development without inflation by encouraging the growth of free enterprise throughout the world and share the obligation of assisting developing countries, including those facing severe debt problems.

We also agreed to enhance coordination in foreign assistance. Trade issues figure prominently in the Japan-U.S. relationship. There is no simple, overnight solution to our trade problems, but we have agreed to exert our best and continued efforts to solve these issues.

We welcome recent actions by your government to reduce trade barriers, and I have emphasized the importance of further measures to open the Japanese market to trade and investment. I didn't come to negotiate specific trade issues, but I did indicate certain issues of immediate importance to us.

Because of both their trade and consumer significance, for example, we are seeking reductions in Japan's tariffs on certain products in which the U.S. is highly competitive. Japanese quotas on agricultural products are a cause for concern. In return, the United States must combat protectionism in our country, and I have given the Prime Minister my pledge to do so.

Progress in Japan-U.S. trade issues can foster greater trade liberalization efforts worldwide, such as the Prime Minister's call for a new round of multilateral grade negotiations which I heartily endorse. I expressed confidence that the United States can be a reliable long-term supplier of energy, particularly coal, to Japan. And I was pleased that the Prime Minister Nakasone shared this view.

Expanded energy trade will mean more jobs for Americans and greater security for both our countries.

With the approval of Prime Minister Nakasone and myself a joint press statement is being released today by Finance Minister Takeshita and Treasury Secretary Reagan -- Regan (laughter) -- I tried to get him to pronounce it the other way -- on the yen-dollar issue and other financial and economic issues of mutual interest. We agree that the commitments and steps outlined in that statement will further strengthen economic relations between the United States and Japan.

We have noted the importance of the yen-dollar exchange rate, of free and open capital markets in each country. We stress the need for closer economic consultations between the two governments. A ministerial-level working group is being set up to monitor each side's progress in carrying out the agreed-upon actions to improve the yen-dollar exchange rate.

MORE

Our mutual commitment toward specific steps to achieve open capital markets will allow the yen to reflect more fully Japan's underlying political stability and economic strength as the second largest economy in the free world. In addition, we've agreed to instruct our economic sub-Cabinet members to form a committee to promote mutual investments. But Japan and America began taking those steps together. I've been heartened that beginning with our first meeting, last January, continuing with the Williamsburg Summit and now again during our visit this week, Prime Minister Nakasone and I have agreed that our two great democracies share special responsibilities to each other and to the world. Let us continue to go forward, building on our progress step by step. We must set milestones to monitor the success of our agenda for progress and to assure the follow-through that is essential. And I will be discussing this matter in more detail with the Prime Minister tomorrow.

This visit has strengthened the bonds of friendship between our two great nations. We are now better prepared to work together as partners to build a more peaceful and prosperous future at home and throughout the world. We know what needs to be done, we know how it must be done. Let us have the faith to believe in each other, the courage to get on with the job, and the determination to see it through.

Thank you very much.

END 3:06 P.M. JST

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 14, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,205 million of 13-week bills and for $ 6,203 million of 26-week bills, both to be issued on November 17, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 16, 1984			:	26-week bills maturing May 17, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.73% a/	9.08%	97.793	:	8.88%	9.45%	95.511
High	8.79%	9.14%	97.778	:	8.92%	9.50%	95.490
Average	8.78%	9.13%	97.781	:	8.91%	9.48%	95.496

a/ Excepting 1 tender of $2,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 15%.
Tenders at the high discount rate for the 26-week bills were allotted 88%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 239,295	$ 93,045	:	$ 175,545	$ 90,545
New York	13,141,630	4,871,130	:	10,902,495	4,823,855
Philadelphia	25,905	25,905	:	18,605	18,605
Cleveland	98,070	79,570	:	34,305	34,305
Richmond	67,470	67,470	:	63,515	55,075
Atlanta	51,325	51,325	:	36,830	36,470
Chicago	1,505,035	490,550	:	1,159,120	412,990
St. Louis	54,735	30,735	:	60,640	33,640
Minneapolis	11,990	11,990	:	27,605	25,605
Kansas City	45,305	45,305	:	44,530	44,530
Dallas	22,805	22,805	:	26,435	25,835
San Francisco	948,315	146,315	:	1,001,135	311,935
Treasury	268,990	268,990	:	290,075	290,075
TOTALS	$16,480,870	$6,205,135	:	$13,840,835	$6,203,465
Type					
Competitive	$14,083,255	$3,807,520	:	$11,252,155	$3,614,785
Noncompetitive	1,013,100	1,013,100	:	848,580	848,580
Subtotal, Public	$15,096,355	$4,820,620	:	$12,100,735	$4,463,365
Federal Reserve	1,196,015	1,196,015	:	1,100,000	1,100,000
Foreign Official Institutions	188,500	188,500	:	640,100	640,100
TOTALS	$16,480,870	$6,205,135	:	$13,840,835	$6,203,465

1/ Equivalent coupon-issue yield.

R-2416

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 15, 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 November 25, 1983. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,451 million, including $ 871 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $ 2,668 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

90-day bills (to maturity date) for approximately $6,200 million, representing an additional amount of bills dated February 24, 1983, and to mature February 23, 1984 (CUSIP No. 912794 ED 2), currently outstanding in the amount of $14,010 million, the additional and original bills to be freely interchangeable.

181-day bills for approximately $6,200 million, to be dated November 25, 1983, and to mature May 24, 1984 (CUSIP No. 912794 EZ 3).

The Treasury may alter the size or timing of these auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of November 21, 1983.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 25, 1983. 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.

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-2417

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, November 21, 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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

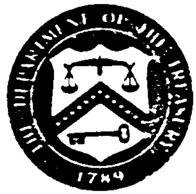
of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

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 $1,000,000 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 November 25, 1983, in cash or other immediately-available funds or in Treasury bills maturing November 25, 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 RELEASE UPON DELIVERY
Expected at 1:20 p.m.
Tuesday, November 15, 1983

REMARKS BY
DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE
AMERICAN COUNCIL OF LIFE INSURANCE
WASHINGTON, D.C.
NOVEMBER 15, 1983

Good afternoon and thank you for the introduction. You, and the companies you represent, are a major component of the country's financial system. It is, therefore, a particular pleasure to be here and to address this assembly of insurance executives.

I don't think I've seen this many members of your industry together at once since the last time I decided to increase my coverage!

I remember buying my first policy. The agent talked for a good while, explaining the facts and figures, the mortality tables and life expectancy. But no pressure. At the end of his presentation he said, "Don't let me frighten you into a decision. Sleep on it. _If_ you wake up in the morning, let me know what you think."

The insurance business in this country has a long history, with its roots among the accomplishments of one of our most illustrious forefathers -- Benjamin Franklin. He organized the first insurance company in the United States in 1752.

In this century, life insurance companies have enjoyed strong and steady growth. Certainly there have been failures -- whether from bad management, poor investing or the attrition suffered in any industry. But, today, the insurance industry stands as a leader. Some of your companies are today among the most powerful financial institutions on the earth. And your economic impact is great.

How did this come about? The word "risk" is a big part of the answer. You understand the word. Your industry is built upon risk. Insurance is a device to handle risk.

R-2418

But the risk I'm speaking of is that of the entrepreneur: The person who enters the marketplace with his energies and his capital, putting these tools to work with the expectation of gain. Empires of economic strength and social significance have been forged in your industry -- and in other industries -- because of the willingness to accept this kind of risk.

However, to take the risk you must have the opportunity. Part of this Administration's program seeks to provide that opportunity -- an equal opportunity for all players in the free market.

With this as an objective, deregulation is a cornerstone of the President's program. It is bringing change in order to keep up with change. And we believe it can only benefit business, industry, the consumer and the economy.

Much of the regulation this Administration would like to see scrapped or altered was born out of economic times or social circumstances which no longer apply. Other regulation has come simply from the government's inevitable propensity to expand and control.

Dismantling the outmoded and useless regulation in a careful and organized manner will allow the market to operate as it should. And when the market is allowed to follow its course, the results are efficiency and responsiveness.

Financial deregulation is but one aspect of our overall deregulatory program, but it is a very important aspect. The world of finance -- personal and corporate -- is changing as rapidly and dramatically as any sector of our society. In the last few years we have seen a veritable explosion of new products, new services and new methods of conducting financial transactions. Financial institutions and consumers need the ability to deal effectively with these changes.

We came part of the way last year with the Garn-St Germain Depository Institutions Act of 1982. Although heading in the right direction, the 1982 Act wasn't enough.

The Administration's further response, as you know, is the proposed Financial Institutions Deregulation Act of 1983. It is a proposal, we know, that many of you oppose.

In a recent letter to my deputy, Tim McNamar, from an official of a life insurance trade organization, it was stated that a backlash is developing among the membership -- a membership which comprises, and I quote, "erstwhile, enthusiastic supporters of Reaganomics."

I might remind the industry that part of the President's campaign and a strong element in his philosophy was and is the need for deregulation. If the industry supported the President, I would assume it embraced his philosophies then and the policies he anticipated having opportunity to implement.

You are capitalists and entrepreneurs working and investing in the world's greatest economy. Surely you don't intend to abandon your philosophies. To go contrary to the forces which made this economy so great.

As entrepreneurs and businessmen you know the value -- indeed, the necessity -- of a market-oriented economy, and the essence of such an economy is competition. This is exactly what we seek through FIDA. This is all that we seek through FIDA.

Our proposal deals with many complex, technical and difficult issues concerning the structure of our Nation's financial system. The debate over the shape of that structure is one that has been underway for many years. Our proposal consists of a balanced approach to arriving at a resolution of this debate.

The traditional distinctions between banking and nonbanking services are rapidly breaking down. And in many cases crossovers by financial institutions to related financial services are occurring through the piecemeal relaxing of regulations by federal regulatory agencies and state legislatures.

Diversified nonbanking firms such as Sears, Merrill Lynch, Shearson/American Express and Prudential-Bache are rapidly approaching the point where they can offer "one-stop" financial shopping. So, already substantial movement is being seen in the directon of restructuring the financial industry.

In my judgment, this is not a trend that can be arrested or turned aside. The question is not whether bank-affiliated organizations will be able to offer insurance and other financial

services, but how. It is not sensible to stand by and yell "Never!" With or without Federal legislation, market forces will impel banks and their affiliates to take the steps necessary to enable them to compete. It is a matter of survival and no series of laws can be drawn tightly enough to prevent a determined industry from finding ways to meet the demands of the market.

A current example of these irresistable pressures is the situation in South Dakota, where legislation permits state-chartered banks to engage in any facet of the insurance business -- a situation which is drawing the attention of major banks throughout the country.

A moratorium, as sought by some groups, is clearly not the answer to the South Dakota problem. Even if it lasted indefinitely, as many of its sponsors hope, a moratorium will only close off one avenue. Banks are seeking out states where they can enter new business because they find this necessary for competitive purposes. If the insurance industry does nothing but oppose change, it risks being left out of the debate on the direction of change -- but it won't stop change.

The Administration's proposal is designed to channel this change -- which can provide so much benefit to consumers -- into a framework for fair competition, while maintaining the safety and soundness of banks. By permitting new activities for bank holding companies rather than banks, it will prevent the competitive unfairness which could arise through banks' use of these insured funds for non-banking purposes, resolve many of the inconsistencies and anomalies in the current structure and widen the choices available to consumers and the financial services industry.

The Administration has met with numerous trade organizations and groups representing the insurance industry. In each case, we have sought to elicit suggestions that would assure that when bank affiliates enter the insurance business, they do so in the fairest possible way, for consumers, and for those who will have to meet new competition.

One issue in which we know you are interested is the possibility of tie-in sales. Current law explicitly prohibits this activity and permits injured parties to sue to prevent this practice. But after listening to the views of some trade groups that enforcement by injured parties alone is not adequate, we

have gone further. The bill provides for a private right of action by a trade association on behalf of a member in order to obtain an injunction against an institution allegedly violating the "anti-tying" provision.

I should add that we would be receptive to even further tightening of the anti-tying laws and have asked all insurance trade associations to make suggestions. I am sorry to report, however, that only one group has come forward with a specific suggestion, and it is not ACLI. In our view, it makes little sense to curse the darkness when it would be so easy to light a candle.

Up to this point, I've discussed primarily what financial deregulation entails for the industry, mentioning briefly the consumer. But, the consumer needs more than brief mention. The very heart of our deregulation efforts is the benefit that will accrue to the consumer from a free and open market.

What is occurring in your industry and in related industries is coming about precisely because of the consumer. The marketplace responds to the consumer. In this particular situation, the market is responding to the radically enhanced financial sophistication of the consumer.

The high inflation of the 1970s prompted the first wave of financial sophistication on a large scale. We saw dollars fly from commercial banks and thrifts into money market mutual funds as depositors abandoned low-yielding, fixed-rate accounts. And you certainly experienced disintermediation in the form of policy loans in that staple of your industry -- the whole life policy. Since then, we've seen a proliferation of new financial instruments targeted at the consumer.

As more and more firms enter the financial services marketplace and diversify their activities, consumers will be offered even wider varieties of financial products at competitive prices, and with greater convenience of selection and service.

Life insurance companies should recognize the stake they have in this developing environment and the important role they can play. You manage billions of dollars and have the expertise to be a major player in the new financial services industry. View yourself as such. Don't fight inevitable change. Embrace change as the means for strengthening the industry overall and providing you with opportunity.

FIDA is the vehicle to assure this necessary transformation comes about in the safest manner that will best serve the market and the industries involved. The Administration's bill is sound. It is overdue. And it provides the necessary framework that an industry courting chaos so desperately needs.

I'd like to speak briefly now on another timely topic which also is of particular interest to this group: The Life Insurance Tax Act of 1983.

This bill proposes a major overhaul in the way life insurance companies and their products are taxed. Generally, the approach taken by the Act is simpler and fairer than the present system. In particular, there will no longer be three "phases" of tax for life companies and the often artificial distinction between investment and underwriting income will be eliminated.

On the other hand, some complexity is inevitable. This stems primarily from the fact the industry consists of two competing segments: stock and mutual companies. Since a distribution from a mutual company to its policyholders consists in part of corporate profits, the profits must be measured and made subject to tax at the corporate level if stocks and mutuals are to be able to compete on a equal basis.

The Act also makes several changes in the taxation of life insurance products. The principal innovation here is that for the first time a general definition of life insurance is provided. The role of the definition is to exclude those policies which have too much investment when compared to the amount of insurance protection provided. We are generally satisfied with the way the definition turned out -- the tax system continues to encourage long-term savings through life insurance but the limitations imposed should eliminate the use of life insurance primarily as a tax shelter or investment vehicle.

The Act also contains a provision limiting the deductibility of interest on policyholder loans. While we are sympathetic to the potential liquidity problems of policyholders and the marketing concerns of the agents, what is really going on here in many of these cases is systematic tax arbitrage. We can see no reason why this type of activity should be allowed to continue virtually unchecked in light of the effort elsewhere in the Act to eliminate excessive investment orientation.

While bank deregulation and insurance matters certainly occupy your minds right now, the sometimes agonizing budget events of the past couple of weeks couldn't have escaped your attention.

Along with this, we have members of Congress holding off on increasing the debt ceiling, throwing uncertainty into the financial markets, with the end result of costing the government more because of the effect on interest rates.

We have, in effect, the Congress holding the debt ceiling increase hostage to force action on deficits. We have the more incredibly audacious members of Congress suggesting this Administration caused the deficits and isn't doing anything about them. But the real motive is simple: They want a tax increase. They want the most damaging action possible right now to the economy.

The answer is not raising taxes. We don't have deficits because the American people aren't taxed enough. We have deficits because the Congress spends too much. The answer is to cut this spending. But this is unpalatable to many in Congress.

A major theme of the President's economic program is to cut federal spending. And he has tried. Three times this Administration has submitted restrained budgets and three times Congress has not agreed on restraint.

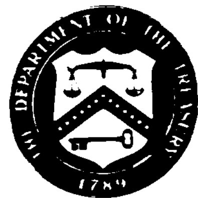
There is a simple solution -- economically simple, politically difficult -- for controlling federal spending. It is called the line-item veto. Chief executive officers have it. State governors have it. Even mayors have it. But the President of the United States doesn't have this authority. Presidents since George Washington in 1793 have been decrying this situation.

With a line-item veto authority, the President would exercise some control over the parochial interests in Congress. Some control over unneeded pet projects. And control over what is simply excess spending in probably every area of government. No budget the President has submitted has been insufficient to run the country, to keep this nation adequately armed nor too lean to take care of the truly needy. There is much room for reduction in government spending.

This Administration is in the midst of a most important undertaking: to return economic stability to the greatest nation on earth and provide for all who seek it the opportunity for happiness and prosperity. We believe we are making much progress through our policies, but our work is not done. We ask your help in reaching these goals, knowing that our aims are the same: a strong and better America.

Thank you.

TREASURY NEWS



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

FOR IMMEDIATE RELEASE November 16, 1983

Press Release

The Treasury Department stated today that, because of the delay in Congressional action on the debt limit legislation, there will be no announcement today regarding the auction of the November 2-year note.

Interested investors are advised to look for this announcement at a later time.

R-2419

TREASURY NEWS

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For Release Upon Delivery
Expected at 10:00 a.m.
November 17, 1983

STATEMENT OF
THE HONORABLE DONALD T. REGAN
SECRETARY
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE

Mr. Chairman and Members of the Committee:

I am appearing before you today along with my distinguished Cabinet colleagues to discuss the Federal tax features of the Administration's enterprise zone program as contained in H.R. 1955, The Enterprise Zone Employment and Development Act of 1983.

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

Since the enterprise zone concept is designed to create a free-market environment for business, the intent is not to foster a particular kind of business activity. The Federal

tax features of the Administration's program therefore contain strong, balanced incentives for the creation of new jobs and capital formation in the zones through employment and investment credits and other tax incentives. On the whole, the effect of the Federal tax package offered by the Administration's program will be to reduce significantly the taxes payable by employers on income generated by activities in designated zones, eliminate entirely the capital gains tax on certain types of property used primarily within the zones, allow the continued use of tax-exempt small issue industrial development bonds issued with respect to zone activities, and provide income tax relief for qualified employees of firms doing business within a designated zone.

I first will outline the major Federal income tax incentives of the Administration's enterprise zone program. Next, I will discuss several important issues of tax policy and administration raised by a program designed to target Federal income tax incentives to specially designated areas of economic distress.

I. Outline of Federal Tax Incentives in Administration's Program

A. Credits for Employers

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

These payroll credits will be nonrefundable and will be available only with respect to "qualified employees," *i.e.*, those who perform 50 percent or more of their services within an enterprise zone and at least 90 percent of whose services are directly related to the zone business. The amount of these credits will reduce the employer's deduction for wages. The credits will phase out during the last 4 years of a zone, declining by 25 percent per year.

1. Credit for increased enterprise zone employment

The general payroll credit for enterprise zone employers will be equal to 10 percent of their "qualified increased employment expenditures." This is the amount by which the payroll for qualified employees in any taxable year exceeds the payroll for the base period, which is generally the 12-month period prior to zone designation. Qualified wages are limited to 2-1/2 times the FUTA wage base (currently $7,000) per qualified employee. Thus, the current maximum

credit for qualified increased employment expenditures will be 10 percent of each qualified employee's wages up to $17,500, or $1,750 per employee.

The 10-percent credit is designed to attract labor-intensive business activities to the enterprise zone areas and encourage firms already operating within those areas to expand. With a cap of $17,500 on wages to which the credit applies, the incentive is focused on jobs for unskilled workers and those with some training but still in the lower middle income brackets.

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

As an example of how the credit is to work, assume that in a 12-month period prior to zone designation an employer employs two persons, A and B, at an annual salary of $12,000 each in an area which is to be designated as an enterprise zone. Since the employer's $24,000 pre-zone payroll is within the $17,500 per employee limit, that amount represents the base period wages. If after zone designation the employer gives each employee a raise of $1,000 per year, the employer's qualified payroll is $26,000 and its qualified increased employment expenditures are $2,000, qualifying it for a credit of $200. If in the next year the employer gives A a $7,000 raise (to $20,000), B a $2,000 raise (to $15,000), and hires a new employee, C, at an annual salary of $9,000, the employer's qualified payroll would increase to $41,500 ($17,500 of the $20,000 paid to A, $15,000 paid to B, and the entire $9,000 paid to C). This exceeds the $24,000 base period wages by $17,500, and the employer qualifies for a credit of $1,750.

2. Credit for employment of disadvantaged individuals

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

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

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

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

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

The credit will be available to all employers for the disadvantaged workers they employ within the zones, regardless of the number of workers or amount of business conducted elsewhere. Additionally, the credit will apply only to disadvantaged workers hired after designation of the zone in which they are employed. These workers do not have to represent net additional workers or an increase in their employer's work force. The credit therefore will not apply

to the past payroll of an existing business in a zone, but will apply, for example, to the replacement with disadvantaged workers of workers lost through attrition. Since the credit is intended to encourage the training and permanent employment of these disadvantaged individuals, the credit, with certain exceptions, generally will be recaptured if an individual is dismissed or fired within 9 months after being hired.

B. Employee Credits

In addition to the regular and special payroll credits, an enterprise zone employer's payroll costs will be reduced by the allowable employee credit. An employee working in an enterprise zone will be entitled to a nonrefundable credit equal to 5 percent of wages paid for services performed within the enterprise zone, up to 1-1/2 times the FUTA wage base (currently $7,000). Thus, the current maximum credit will be 5 percent of $10,500, or $525. This credit will not be included in taxable income.

The tax credit will increase take-home pay to qualified employees who work in the zone. Such a benefit will be important to inducing workers to accept employment within the zones that may initially be somewhat undesirable places to work. The credit will phase out during the last 4 years of a zone, declining by 25 percent per year.

C. Investment Tax Credit for Enterprise Zone Property

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

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

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

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

D. Capital Gains Exclusions

The favorable tax treatment accorded capital gains within enterprise zones should stimulate investment in the zones by real estate developers and by entrepreneurs and venture capitalists seeking to start and build up new businesses. This should attract to the zones new, small businesses with substantial growth potential. More generally, the incentive should encourage capital investments within the zone areas.

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

Special rules are provided that are designed to curtail the potential for abuse in this area. For example, gain from the sale of an interest in a qualified business will not qualify for exclusion to the extent it is attributable to:

(1) any property contributed to the qualified business within the previous 12 months, (2) any interest owned by a qualified business in any other business that is not a qualified business, and (3) any other intangible property owned by the qualified business that was not created as part of an active trade or business within an enterprise zone after designation of the area as an enterprise zone.

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

E. Small Issue Industrial Development Bonds

In addition to the special investment tax credits and the exclusion of qualified enterprise zone capital gains, the Administration's program will extend the tax exemption provision for interest from small issue industrial development bonds used to finance enterprise zone property. The general tax exemption provision for small issue industrial development bonds is now scheduled to expire with respect to all bonds issued after the end of 1986. H.R. 1955 will remove this sunset date for the entire period during which an area is designated as an enterprise zone. H.R. 1955 also provides that the provision of present law that restricts the cost recovery deductions for property financed with tax-exempt bonds will not apply to enterprise zone property eligible for the additional investment tax credits described above.

F. Revenue Estimates

Because we are not certain of when the 75 zones will be designated or of their size and characteristics, the revenue estimates were based on representative zones. The revenue estimates therefore can be expected to change as the zones are actually designated by HUD. Also, the revenue costs increase in future years as the number of zones and business activity within each zone increase. The projected revenue losses for the phasing in of the 75 zones over the next several years are:

Fiscal Years

($ billions)

1984	1985	1986	1987	1988
-.1	-.4	-.7	-.9	-1.0

II. Issues of Tax Policy and Administration

I would now like to discuss several issues of tax policy and administration that are raised by any program that targets Federal tax incentives at specially designated areas of economic distress.

A. Identifying Enterprise Zones

The Administration's enterprise zone program identifies and selects enterprise zones through a process requiring nomination of areas by State and local governments, satisfaction of various objective criteria in establishing that areas suffer from pervasive poverty, unemployment, and general distress and consideration of the strength of State and local government commitments to create an environment conducive to the growth of private enterprise, job creation, and area-wide economic revitalization. We believe that both the process and the substantive criteria contained in H.R. 1955 should ensure effective targeting of Federal tax incentives to areas of economic distress likely to be revitalized by joint efforts of State and local governments and private businesses and organizations.

B. Effectiveness of Federal Tax Incentives Targeted for Enterprise Zones

The Federal tax incentives of the Administration's enterprise zone program are designed to encourage the formation of new businesses and expansion of existing enterprises in areas of economic distress. To this end, the program contains strong, balanced incentives for job creation and labor intensive businesses, as well as incentives for new capital investments within the zones. The various employment and investment tax credits and capital gains exclusions are targeted at expansion in qualified employment or investment beyond levels existing at the time a zone is designated. Moreover, the tax incentives will apply only with respect to a business that meets certain requirements for activity and location in a zone.

We believe the Administration's program contains the appropriate type and mix of tax incentives targeted for job creation and new capital investment. Other tax preferences, such as capital gains rollover provisions for excluding gain on the sale of property located outside the zone and current expensing for purchasing of stock in new area businesses are less effective means of encouraging the desired economic activity in the zones. These provisions would also be more difficult to police, resulting in adverse revenue effects.

C. Assessing the Revenue Implications of Enterprise Zone Tax Incentives

As mentioned above, our revenue estimates are based upon assumptions as to economic and demographic characteristics of representative zones. Obviously, once zones are designated, revenue estimates can be made with greater precision.

With respect to the general issue of assessing revenue implications for designated enterprise zones, implications should be assessed by consideration of the type and extent of new economic activity expected to be induced by the Federal tax incentives and State and local commitments to the growth of area businesses. Our revenue estimates are based on estimates of likely economic growth in the zones over the five-year budget period. Secondary feedback effects on economic variables, such as nominal GNP, direct outlay programs, and hence on Federal budget balances, are not included in revenue estimates. Obviously, our revenue estimates do not take into account any effects on local tax revenues.

D. Advantages of Tax Incentives

The Administration's enterprise zone tax incentives are structured so as not to predetermine private business decisions. Making available tax incentives to all businesses in an enterprise zone ensures the most economically efficient expansion of business activity and job creation in economically distressed areas.

E. Use of Industrial Development Bonds

The Administration's enterprise zone program includes a provision removing the December 31, 1986 expiration date for tax-exempt small issue industrial development bonds used to finance enterprise zone property. Removal of the expiration date for this discrete use of small issue industrial development bonds is necessary since enterprise zones are to be designated for 20 years followed by a four-year phase-out period.

F. Limited Number of Enterprise Zones

The Administration's enterprise zone program is an experimental program and for that reason is limited to 75 zones. We believe it is fair to limit the application of Federal tax incentives to a limited number of enterprise zones so that experience can be developed under the program.

III. Conclusion

The Administration's enterprise zone program represents a fresh approach for dealing with the problems of economically distressed areas by spurring private economic activity. We are confident that the total program contains the necessary ingredients to make it a complete success and I urge you to lend your support to our efforts.

TREASURY NEWS

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

HOLD FOR RELEASE
AT 10:30 A.M.
FRIDAY, NOVEMBER 18, 1983

Statement by R.A. Cornell
Deputy Assistant Secretary
U.S. Department of Treasury
before the
Subcommittee on Preparedness
Committee on Armed Services
U.S. Senate

I appreciate the opportunity to present the Treasury Department's views on barter and the sale of silver from the stockpile. Our interest focuses primarily on the current review of government barter policy. I will describe briefly the role of the Senior Interdepartmental Group on International Economic Policy (SIG-IEP) in the Administration's examination of policy regarding the barter of CCC and/or other government-owned property for strategic materials. The SIG has had the issue under review and the matter is now at the White House for decision, but Administration policy has not yet been finally determined. We expect such a determination soon. As regards silver, we have considered proposals for using stockpiled silver in commemorative and bullion coins, and I will comment briefly on that review.

<u>Policy implications of barter for stockpile materials</u>

The discussion of stockpile barter in the SIG-IEP complements the recent policy reviews of the broader issue of countertrade carried out in the Trade Policy Committee framework.

It is clear from this USTR-led review of countertrade that the Administration will likely discourage a revival in identical form of the extensive barter programs that the Government undertook during the 1950's and 1960's. Implementation of those programs required substantial administrative effort, and frequently resulted in displacements of commercial sales and limited U.S. flexibility in obtaining the least cost supplies.

Nevertheless, several existing laws do authorize barter when it is in the best interests of the United States. In fact, this Administration negotiated a barter arrangement with Jamaica last year which was mutually beneficial to both countries. Since other proposals are likely, we are moving to develop more specific policy guidance on handling them.

R-2421

The barter issue has been discussed thoroughly within the SIG-IEP, but we have not yet arrived at an Administration position. As a result of the SIG-IEP review, Secretary Regan, as Chairman of the Group, has forwarded a summary of agency positions to the NSC and requested a Presidential decision on barter policy. All agencies agree that interagency consideration of barter proposals is necessary, but the precise procedures and criteria for reviewing them are still not decided.

<u>The SIG-IEP</u>

The SIG-IEP was established by the National Security Council to provide an interagency framework for discussing the international economic implications of various issues which also have significant foreign policy or national security implications. The Secretary of the Treasury chairs the group and the Secretary of State is vice chairman. Other members of the group include the Vice President, the Secretaries of Defense and Commerce, OMB, CIA, USTR, and NSC. Other agencies participate when issues in their areas of responsibility or interest are discussed. The SIG-IEP meets regularly, usually about once a week, and has effectively addressed a heavy agenda of policy issues.

In Treasury's view, the SIG-IEP is well suited to the task of examining barter proposals because these have implications for several policy areas:

-- National defense stockpiles
-- Agricultural policy
-- International trade policy
-- Developing country trade balances
-- Foreign policy
-- Budget policy

The Department can appreciate the intense interest of several groups in the barter issue. On their face, barter proposals seem straightforward: send agricultural commodities (or any other government property) to developing countries in exchange for materials which we need for our stockpile. Very often countries producing raw materials need additional imported food and have excess supplies of strategic commodities they could send us. But to complete these exchanges, the U.S. would probably have to value the agricultural commodity below acquisition value and below U.S. market prices. This would amount to an export subsidy and could be a violation of General Agreement on Tariffs and Trade (GATT) rules.

The procedure for acquiring materials for the stockpile requires careful attention to priorities so that the most critical materials are acquired first. Since proposed barter

arrangements often involve commodities which are not compatible with the established priority schedule, we could misallocate stockpile resources unless these priorities are maintained. That is not easy when foreign policy and domestic interest group pressures come into play.

In negotiating barter arrangements, effective budget management could be jeopardized, if the statuatory requirement to reimburse CCC is removed. The annual budget process is the best vehicle to establish our nation's priorities for stockpile acquisitions relative to other national security or social programs. Bartering programs establish an off-budget funding mechanism which distorts those priorities. The present statuatory requirement that CCC be reimbursed for bartered commodities ensures that GSA will consider the commodities' costs and materials priorities when contemplating any barter transaction. We would be concerned about new legislation being proposed to remove the CCC reimbursement provision.

Finally, in considering barter proposals, foreign policy impacts need careful attention. Barters with concessionary terms provoke requests from other nations for similar arrangements and protests from competing exporting countries. For these and other reasons -extraneous to stockpile policy itself -- the United States may or may not want to undertake a proposed barter arrangement with a particular country.

These comments illustrate the complex and often conflicting policy considerations that must be taken into account when considering barter proposals. This is why the SIG has been reviewing the issue to determine the operational guidelines the Administration may need to adopt in implementing existing law and the broad policy established by the Trade Policy Committee.

Several studies of barter have been carried out, both inside and outside the Government. They have examined the efficiency of barter as a trading tool as well as the advantages and disadvantages of barter in achieving other policy objectives, particularly stockpile goals. A staff report by the Department of Agriculture has examined past barter programs and described the advantages and disadvantages of barter in general. Also, a 1962 study by an interagency working group pointed out the many policy and practical implications of specific barter programs. Those studies indicate that though barter may be advantageous to some countries in particular circumstances, these advantages are usually overwhelmed by much greater efficiency and convenience of standard arms-length commercial transactions.

Silver Disposals

In December 1981, when silver prices were very low, the Congress withdrew its approval for GSA to dispose of excess silver stocks and asked the Aministration to prepare a study on the effect of silver sales on markets for silver. Since the study is within the purview of the Cabinet Council on Natural Resources and the Environment chaired by the Department of the Interior, I defer to that agency on the report's status.

Early this year, the Treasury Department testified on S. 269 sponsored by Senator McClure of Idaho. That bill proposes to use 105 million troy ounces of silver from the stocks of the national defense stockpile to mint coins which would be sold to the general public. At the time, we recommended that market research be done to determine the feasibility of marketing silver coins before further consideration be given to the bill. Such research has been done by an independent organization and offered to the Treasurer. The Treasurer and the Bureau of the Mint intend to examine the study findings and methodology in the near future at which time the Department would be better prepared to comment on its finding.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE   November 18, 1983

TREASURY TO AUCTION $8,000 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $8,000 million of 2-year notes to refund $4,797 million of 2-year notes maturing November 30, 1983, and to raise $3,200 million new cash. The $4,797 million of maturing 2-year notes are those held by the public, including $700 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The Treasury may alter the size or timing of this auction unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of November 22, 1983.

The $8,000 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average price of accepted competitive tenders.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $696 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.

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Attachment

R-2422

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED NOVEMBER 30, 1983

November 18, 1983

Amount Offered:	
To the public	$8,000 million
Description of Security:	
Term and type of security	2-year notes
Series and CUSIP designation	Series AB-1985 (CUSIP No. 912827 QE 5)
Maturity date	November 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	May 31 and November 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:	
Receipt of tenders	Tuesday, November 22, 1983, prior to 1:30 p.m., EST
Settlement (final payment due from institutions)	
a) cash or Federal funds	Wednesday, November 30, 1983
b) readily collectible check ...	Monday, November 28, 1983

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 18, 1983

CONTACT: CHARLES POWERS
(202) 566-2041

WORLDWIDE UNITARY TAX WORKING GROUP TASK FORCE ANNOUNCES A PUBLIC HEARING

The Task Force of the Worldwide Unitary Tax Working Group has announced a public hearing for the purpose of receiving testimony from interested parties on the subject of the worldwide unitary method of taxation and related issues. The Working Group, chaired by Secretary Regan, was established at the request of President Reagan in order to find a solution to the problems that may be caused by the worldwide unitary method of taxation. The hearing will be held Wednesday, November 30, 1983 from 9:00 a.m. to 5:00 p.m., in Room 4125 of the Main Treasury Building, 15th and Pennsylvania Avenue, N.W.

Participants wishing to reserve a ten minute time slot for their presentation may do so by sending a written request, along with 30 copies of their prepared statement, to Dr. Charles E. McLure, Deputy Assistant Secretary (Tax Analysis), Room 3108, Main Treasury Building, 15th and Pennsylvania Avenue, N.W., Washington, D.C. 20220; requests must be received before noon, Monday, November 28, 1983. Participants are requested to keep their presentations brief and concise, and should expect to answer follow-up questions of a technical nature.

This announcement will appear in the Federal Register of November 23, 1983.

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R-2423

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON November 18, 1983

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $8,000 million of 364-day Treasury bills to be dated December 1, 1983, and to mature November 29, 1984 (CUSIP No. 912794 FK 5). This issue will provide about $1,000 million new cash for the Treasury, as the maturing 52-week bill was originally issued in the amount of $7,008 million.

The Treasury may alter the size or timing of this auction unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of November 23, 1983.

The bills will be issued for cash and in exchange for Treasury bills maturing December 1, 1983. In addition to the maturing 52-week bills, there are $12,446 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 $2,293 million, and Federal Reserve Banks for their own account hold $4,253 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate 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 $300 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, prior to 1:30 p.m., Eastern Standard time, Wednesday, November 23, 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-2424

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. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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

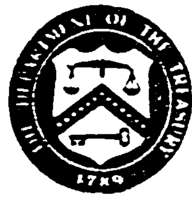
the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for $1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids. 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 December 1, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 1, 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
November 21, 1983

CONTACT; Charles Powers
(202) 566-2041

BAN ON IMPORTS OF CUBAN NICKEL-BEARING MATERIALS FROM THE U.S.S.R.

The Department of the Treasury announced today that, effective thirty days from today, all unfabricated nickel and nickel-bearing materials imported directly or indirectly from the U.S.S.R. will be detained by the U.S. Customs Service until such time as their release is authorized by the Office of Foreign Assets Control. The ban will not apply to Soviet nickel-bearing materials re-exported to the United States from third countries that have been combined with other elements in a third country to form different metals, such as nickel alloys or stainless steel. Nor will the ban apply to imports of fabricated items, such as flatware, pots or pans.

This measure is being taken to enforce the ban on importation of nickel from Cuba into the United States. The Cuban Assets Control Regulations have banned importation of Cuban raw materials into the United States, either directly or as components of products manufactured in other countries, since 1963. The Department of the Treasury has imposed this new measure pursuant to that embargo, based on information indicating that almost half of the total nickel production of Cuba is exported to the U.S.S.R. There is reason to believe that some of this Cuban nickel is incorporated into nickel-bearing products exported from the U.S.S.R. to the United States. Soviet exports of unwrought nickel to the United States were worth $12 million in 1982 and $37 million in 1981.

The restriction being imposed on imports from the U.S.S.R. in this instance is similar to those imposed in previous years on imports of nickel-bearing products from Italy and France. Following imposition of this ban, as in the cases of Italy and France, the U.S.S.R. will be given an opportunity to establish a valid and reliable certification arrangement with the United States to assure that Soviet exports to the United States of nickel-bearing materials do not contain Cuban nickel. If the U.S.S.R. satisfies this condition, its exports of such materials may once again be permitted entry into the United States, subject to presentation of appropriate certificates of origin.

R-2425

NOTICE

DEPARTMENT OF THE TREASURY
Office of Foreign Assets Control

Ban on Imports of Cuban Nickel-Bearing
Materials from the U.S.S.R.

The Office of Foreign Assets Control has reason to believe that certain nickel-bearing materials imported into the United States from the U.S.S.R. contain Cuban nickel. Except as licensed by the Secretary of the Treasury, importation into the United States of materials derived from nickel of Cuban origin is prohibited under Section 5(b) of the Trading With the Enemy Act, 50 U.S.C. App. 5, and by Sections 515.201 and 515.204 of the Cuban Assets Control Regulations, 31 C.F.R. Part 515.

Notice is hereby given that, effective 30 days from the date of this notice, unfabricated nickel-bearing materials imported directly or indirectly from the U.S.S.R. will be detained by the United States Customs Service until such time as their release from Customs custody or other disposition is authorized by the Office of Foreign Assets Control. As used herein, "unfabricated nickel-bearing materials" includes: (1) nickel ore in any stage of refinement, including nickel matte and nickel oxide; (2) primary nickel in any form, including nickel cathode, powder and flakes; (3) wrought nickel in its basic shapes and forms, including ingots, slabs, bars, plates and rods; (4) nickel waste and scrap; (5) nickel alloys in their basic shapes and forms, including ferronickel; and (6) stainless steel in its basic shapes and forms containing more than 2.5% nickel. Fabricated

items such as flatware, pots and pans are not covered by the ban.

This detention order shall not apply to nickel alloys and stainless steel that are manufactured from Soviet nickel in any country other than the U.S.S.R. Nickel alloys and stainless steel that are manufactured in the U.S.S.R., however, may not be imported into the United States merely because they have been transshipped through a third country or cut, pressed, milled, drawn or otherwise wrought in another country. For example, stainless steel bars from the Soviet Union that are cut, rolled or otherwise processed short of fabrication in a third country may not be imported into the United States.

Beginning 30 days from the date of this notice, unfabricated nickel-bearing materials (not including nickel alloys and stainless steel) made from Soviet nickel may not be imported into the United States. For example, nickel rods, plates, bars or sheets wrought in a third country from nickel cathode or another form of primary nickel from the U.S.S.R. may not be imported. Importers of such materials that have questions regarding their admissibility through U.S. Customs should contact the Office of Foreign Assets Control. Inquiries may be addressed to either Raymond W. Konan, Chief Counsel, 202/376-0236, or Marilyn L. Muench, Chief of Licensing, 202/376-0408.

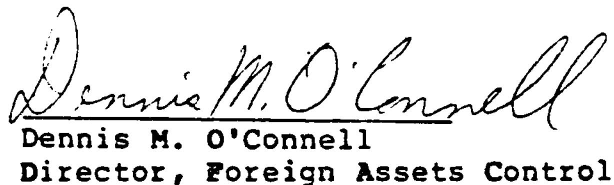
The Office of Foreign Assets Control is considering whether to require that imports into the United States of certain unfabricated nickel-bearing materials from countries that import nickel from the U.S.S.R. be accompanied by documentation showing that they were not manufactured in the U.S.S.R. or from Soviet

nickel. If imposed, the requirement will become effective within 30 days following the date of its publication in the Federal Register.

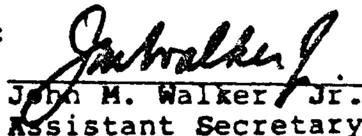
The Office of Foreign Assets Control will generally issue specific licenses authorizing the release from Customs custody of unfabricated nickel-bearing materials, except nickel granules and nickel sulphate, where, prior to the date of this notice, the materials were paid for by a person in the United States or covered by an irrevocable letter of credit established in a domestic bank. Specific licenses may be issued authorizing the release from Customs of materials that depart the U.S.S.R. in transit to the United States before the date of this notice, and are presented to U.S. Customs within 60 days following that date.

This notice supersedes the earlier notices of February 4, 1969, dealing with importation of nickel granules from the U.S.S.R., and of October 3, 1969, dealing with importation of nickel sulphate from the U.S.S.R.

Dated: November 21, 1983



Dennis M. O'Connell
Director, Foreign Assets Control

Approved: 

John M. Walker, Jr.
Assistant Secretary

[AUTHORITY: Sec. 5, 40 Stat. 415, as amended, 50 U.S.C. App. 5; Sec. 620(a), 75 Stat. 445, 22 U.S.C. 2370(a); Proc. 3447, 27 F.R. 1085, 3 C.F.R. 1959-1963 Comp.; E.O. 9193, 7 F.R. 5205, 3 C.F.R. Comp. Supp., p. 1174; E.O. 9989, 13 F.R. 4891, 3 C.F.R., 1943-1948 Comp., p. 748.]

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

November 21, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,209 million of 13-week bills and for $6,250 million of 26-week bills, both to be issued on November 25, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 23, 1984			:	26-week bills maturing May 24, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.79%	9.14%	97.803	:	8.95% a/	9.53%	95.500
High	8.82%	9.17%	97.795	:	8.96%	9.54%	95.495
Average	8.81%	9.16%	97.798	:	8.96%	9.54%	95.495

a/ Excepting 1 tender of $10,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 67%.
Tenders at the high discount rate for the 26-week bills were allotted 63%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 237,515	$ 65,965	:	$ 187,710	$ 36,960
New York	13,831,875	4,980,180	:	18,585,930	5,540,230
Philadelphia	24,000	24,000	:	16,110	16,110
Cleveland	85,545	35,545	:	64,910	32,355
Richmond	40,140	40,140	:	101,435	35,435
Atlanta	45,815	43,675	:	71,080	31,140
Chicago	1,729,430	481,950	:	1,381,700	107,945
St. Louis	73,260	64,520	:	76,895	68,895
Minneapolis	16,510	9,860	:	24,825	10,825
Kansas City	35,350	34,305	:	43,230	43,230
Dallas	26,430	26,430	:	15,870	15,870
San Francisco	827,495	151,180	:	1,029,300	60,600
Treasury	250,950	250,950	:	250,185	250,185
TOTALS	$17,224,315	$6,208,700	:	$21,849,180	$6,249,780
Type					
Competitive	$14,684,325	$3,668,710	:	$18,993,795	$3,394,395
Noncompetitive	1,042,980	1,042,980	:	844,085	844,085
Subtotal, Public	$15,727,305	$4,711,690	:	$19,837,880	$4,238,480
Federal Reserve	1,371,010	1,371,010	:	1,300,000	1,300,000
Foreign Official Institutions	126,000	126,000	:	711,300	711,300
TOTALS	$17,224,315	$6,208,700	:	$21,849,180	$6,249,780

1/ Equivalent coupon-issue yield.

R-2426

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Friday, November 18, 1983

STATEMENT BY TREASURY SECRETARY
DONALD T. REGAN
ON THE RESUMPTION OF THE SALE OF SAVINGS BONDS
AND NONMARKETABLE TREASURY SECURITIES
NOVEMBER 18, 1983

Secretary of the Treasury Donald T. Regan has announced today, since Congress has passed debt limit legislation, the Treasury has authorized the Federal Reserve Banks and Branches and other issuing agents to resume the issuance of U. S. Savings Bonds effective Monday, November 21, 1983. Also being resumed November 21 is the issuance of special State and local government securities.

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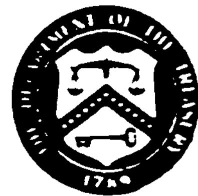
R-2427

TREASURY NEWS 

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

FOR IMMEDIATE RELEASE
November 18, 1983

U.S. TREASURY TO SPONSOR PAPERWORK REDUCTION FORUM

The Treasury Department will hold a Paperwork Burden Reduction Forum on December 1 at 300 North Los Angeles Street to inform the public of the agency's efforts to streamline information requests by the Customs Service and the Bureau of Alcohol, Tobacco and Firearms. Importers, brokers, alcohol producers and distributors, firearm licensees and other members of the public will have the opportunity to make concrete suggestions as to what Treasury can do further to reduce the paperwork burden that is imposed.

Deputy Assistant Secretary of the Treasury, George Astengo, will keynote the "Paperwork Burden Reduction Forum," at 9 a.m., on December 1st.

"As part of its Reform 88 efforts, the Reagan Administration is anxious to continue reducing the reporting burden on the private sector. We can streamline forms at the same time we ensure the continued enforcement of our laws," said Deputy Assistant Secretary Astengo. He added: "Through the elimination of duplication where certain information requests may overlap, we hope to increase efficiency for both the government and the public."

Astengo is a Glendale California native. He served in the Office of Presidential Personnel at the White House before joining the Office of the Secretary in the Treasury Department in late 1981. His private sector experience includes Vice President, Employee Relations and Administrative Services, at the Beneficial Life Insurance Company and Manager of Person[illegible] Administration at the International Telephone and Teleg[illegible] Corporation. Before coming to Washington, D.C., Astengo s[illegible] as Vice Chairman of the Human Resources Committee of the Los Angeles Chamber of Commerce. Astengo is married to the former Minerva Maria Garcia. They have two children, David and Monique. Monique is attending the University of California at Santa Barbara.

For more information contact David Nolan at (202)566-2717 prior to November 28 and at (213)688-5900 thereafter.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 21, 1983

TREASURY TO AUCTION $6,000 MILLION OF 5-YEAR 2-MONTH NOTES

The Department of the Treasury will auction $6,000 million of 5-year 2-month notes to raise new cash. Additional amounts of the notes may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities 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.

Attachment

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R-2428

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 5-YEAR 2-MONTH NOTES
TO BE ISSUED DECEMBER 1, 1983

November 21, 1983

Amount Offered:

To the public	$6,000 million

Description of Security:

Term and type of security	5-year 2-month notes
Series and CUSIP designation	Series G-1989 (CUSIP No. 912827 QF 2)
Maturity date	February 15, 1989
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	August 15 and February 15 (first payment on August 15, 1984)
Minimum denomination available	$1,000

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:

Receipt of tenders	Tuesday, November 29, 1983, prior to 1:30 p.m., EST
Settlement date (final payment due from institutions)	
a) cash or Federal funds	Thursday, December 1, 1983
b) readily collectible check	Tuesday, November 29, 1983

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.

November 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 December 1, 1983. This offering will not provide new cash for the Treasury, as the maturing bills were originally issued in the amount of $ 12,446 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 September 1, 1983, and to mature March 1, 1984 (CUSIP No. 912794 EQ 3), currently outstanding in the amount of $ 6,267 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,200 million, to be dated December 1, 1983, and to mature May 31, 1984 (CUSIP No. 912794 FA 7).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 1, 1983. In addition to the maturing 13-week and 26-week bills, there are $ 7,008 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Federal Reserve Banks, as agents for foreign and international monetary authorities, currently hold $1,722 million, and Federal Reserve Banks for their own account hold $ 4,291 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills.

Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average 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 $ 1,422 million of the original 13-week and 26-week issues.

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

R-2429

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, November 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 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 December 1, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 1, 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 November 22, 1983

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $ 8,008 million of $16,863 million of tenders received from the public for the 2-year notes, Series AB-1985, auctioned today. The notes will be issued November 30, 1983, and mature November 30, 1985.

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:

	Yield	Price
Low	10.55%	99.912
High	10.64%	99.754
Average	10.62%	99.789

Tenders at the high yield were allotted 82%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 247,865	$ 123,505
New York	13,647,270	6,000,870
Philadelphia	29,455	29,455
Cleveland	123,695	118,895
Richmond	169,900	130,650
Atlanta	114,185	106,645
Chicago	840,805	407,705
St. Louis	153,810	136,950
Minneapolis	96,225	83,525
Kansas City	116,320	115,230
Dallas	71,800	55,895
San Francisco	1,246,265	693,565
Treasury	4,935	4,935
Totals	$16,862,530	$8,007,825

The $8,008 million of accepted tenders includes $1,060 million of noncompetitive tenders and $6,948 million of competitive tenders from the public.

In addition to the $8,008 million of tenders accepted in the auction process, $285 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $696 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-2430

TREASURY NEWS

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

For Immediate Release
November 23, 1983

Contact: Charles Powers
(202) 566-2041

WORLDWIDE UNITARY TAXATION WORKING
GROUP SCHEDULES DECEMBER MEETING

The Worldwide Unitary Taxation Working Group, chaired by Secretary of the Treasury Donald T. Regan, will hold its second meeting on Tuesday, December 6, 1983, at 10:30 a.m., in the Cash Room of the Treasury Department.

The Working Group is studying the complex issues raised by states' use of the worldwide unitary method of taxation. The Group, composed of representatives of the federal government, state governments, and the business community will advise the Treasury and assist in the development of a policy dealing with unitary taxation.

At this meeting, the Working Group will receive and discuss a status report from the staff level Task Force. The Task Force was established at the November 2nd meeting of the Working Group. Directions for further study by the Task Force will also be discussed. The meeting will conclude with a preliminary discussion of the possible options available for resolution of the issues.

R-2431

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

November 23, 1983

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $8,012 million of 52-week bills to be issued December 1, 1983, and to mature November 29, 1984, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	9.07%	9.91%	90.829
High -	9.10%	9.94%	90.799
Average -	9.09%	9.93%	90.809

Tenders at the high discount rate were allotted 8%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 120,045	$ 10,045
New York	16,707,880	7,223,240
Philadelphia	10,770	7,850
Cleveland	100,420	38,020
Richmond	120,605	68,245
Atlanta	48,780	18,100
Chicago	1,210,370	205,130
St. Louis	55,810	29,810
Minneapolis	7,845	7,845
Kansas City	22,415	22,415
Dallas	10,515	7,755
San Francisco	1,042,185	306,625
Treasury	66,885	66,885
TOTALS	$19,524,525	$8,011,965
Type		
Competitive	$17,282,500	$5,769,940
Noncompetitive	332,025	332,025
Subtotal, Public	$17,614,525	$6,101,965
Federal Reserve	1,700,000	1,700,000
Foreign Official Institutions	210,000	210,000
TOTALS	$19,524,525	$8,011,965

R-2432

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 28, 1983

TREASURY OFFERS $5,000 MILLION OF CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,000 million, to be issued December 2, 1983, as follows:

62-day bills (to maturity date) for approximately $2,500 million, representing an additional amount of bills dated August 4, 1983, and to mature February 2, 1984 (CUSIP No. 912794 EM 2), and

153-day bills (to maturity date) for approximately $2,500 million, representing an additional amount of bills dated November 3, 1983, and to mature May 3, 1984 (CUSIP No. 912794 EX 8).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:30 p.m., Eastern Standard time, Wednesday, November 30, 1983. Wire and telephone tenders may be received at the discretion of each Federal Reserve Bank or Branch. Each tender for the respective issues must be for a minimum amount of $1,000,000. Tenders over $1,000,000 must be in multiples of $1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must 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, futures,

R-2433

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 yield 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. 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. 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 Friday, December 2, 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 November 28, 1983

TREASURY OFFERS $5,000 MILLION OF 17-DAY
CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $5,000 million of 17-day Treasury bills to be issued December 5, 1983, representing an additional amount of bills dated June 23, 1983, maturing December 22, 1983 (CUSIP No. 912794 EB 6).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:30 p.m., Eastern Standard time, Thursday, December 1, 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. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must 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, futures,

R-2434

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 yield 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. 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. 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, December 5, 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

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

FOR IMMEDIATE RELEASE

November 28, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,207 million of 13-week bills and for $6,203 million of 26-week bills, both to be issued on December 1, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 1, 1984			:	26-week bills maturing May 31, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.86%	9.22%	97.760	:	9.02%a/	9.61%	95.440
High	8.92%	9.28%	97.745	:	9.07%	9.66%	95.415
Average	8.90%	9.26%	97.750	:	9.05%	9.64%	95.425

a/ Excepting 2 tenders totaling $2,680,000.

Tenders at the high discount rate for the 13-week bills were allotted 24%.
Tenders at the high discount rate for the 26-week bills were allotted 73%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 399,240	$ 131,240	:	$ 171,490	$ 50,140
New York	11,277,600	4,616,650	:	12,277,170	5,255,410
Philadelphia	21,660	21,660	:	15,050	15,050
Cleveland	73,725	51,125	:	62,450	43,450
Richmond	69,295	69,295	:	49,150	49,150
Atlanta	47,715	47,715	:	68,630	67,280
Chicago	1,515,455	767,295	:	1,108,910	277,290
St. Louis	51,425	42,905	:	61,715	54,715
Minneapolis	11,115	11,115	:	12,235	12,235
Kansas City	37,555	37,555	:	38,850	38,850
Dallas	26,835	26,835	:	16,205	16,205
San Francisco	815,275	161,475	:	721,605	120,795
Treasury	221,645	221,645	:	202,055	202,055
TOTALS	$14,568,540	$6,206,510	:	$14,805,515	$6,202,625
Type					
Competitive	$12,296,815	$3,934,785	:	$12,217,175	$3,614,285
Noncompetitive	883,040	883,040	:	729,740	729,740
Subtotal, Public	$13,179,855	$4,817,825	:	$12,946,915	$4,344,025
Federal Reserve	1,325,985	1,325,985	:	1,300,000	1,300,000
Foreign Official Institutions	62,700	62,700	:	558,600	558,600
TOTALS	$14,568,540	$6,206,510	:	$14,805,515	$6,202,625

1/ Equivalent coupon-issue yield.

R-2435

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 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 December 8, 1983. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 12,461 million, including $1,093 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,975 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 September 8, 1983, and to mature March 8, 1984 (CUSIP No. 912794 ER 1), currently outstanding in the amount of $ 6,221 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 6,200 million, to be dated December 8, 1983, and to mature June 7, 1984 (CUSIP No. 912794 FB 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 8, 1983. 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.

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-2436

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, December 5, 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 December 8, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 8, 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 RELEASE UPON DELIVERY
Expected at 1:15 p.m.
Tuesday, November 29, 1983

REMARKS OF
DONALD T. REGAN
BEFORE THE
GREATER WASHINGTON METROPOLITAN
BOARD OF TRADE
WASHINGTON, D.C.
NOVEMBER 29, 1983

It is a real pleasure to be here and to address the Greater Washington Metropolitan Board of Trade.

I notice that we have Bobby Mitchell, assistant general manager of the Redskins on the dais. If the team wouldn't mind I'd like to borrow the Hogs for a while next year. We could use some muscle to push a few things through Congress.

That was some game Sunday against the Eagles. The Skins had as hard a time getting out of RFK Stadium with a win as we had in getting Congress out of Washington without a tax increase.

Organizations such as your Board of Trade are very important. It's very easy in this town, especially for one in government service, to forget that there is much more here than politics and bureaucracy. This is the seat of our national government. But, the Greater Washington area is also a major center of commerce. A region with a thriving business community. An area attracting more and more corporate headquarters. And a city with a growing entrepreneurial spirit.

This geographic co-location of government and business should serve as a reminder that this nation stands proud and strong today not only because of our democratic ideals, but also because of our free enterprise system and the men and women who create, work and invest to make it great.

The business of America is business. This holds true from the first farmers and shopkeepers of the original colonies, to the great industrial concerns which first came about in the Northeast and Midwest to the new and innovative industries of today. Whether manufacturing or service, large or small, commerce is this country's backbone.

R-2437

Business and industry provide us the jobs, the products, the services and the innovation; making possible our economic strength and adding immeasurably to our overall quality of life.

Now, for the first time in some years, you have an Administration in office that recognizes this principle: the health and welfare of the country are directly related to the vitality of the business community and the people it employs and the people it serves.

What I'd like to do in the next few minutes is show you what this Administration's policies have done for the economic vitality of this country. Afterwhich, I will discuss the single-most major threat to our economic objectives. And finally, I'll summarize what we can achieve and how we can achieve it.

Ronald Reagan promised a stronger economy and an economic climate conducive to business and industrial growth. And he is delivering. The incentives for work, investment, creativity and risk are moving back in place. The entrepreneur is once again challenged to enter the marketplace. And by succeeding, bringing gain to himself and benefit to society.

When we came into office the economy had suffered from years of low productivity growth and high inflation. Economic activity was stagnating.

The President presented a four-part program of lowered tax rates, reduced growth of Federal spending, regulatory reform, and support of the Federal Reserve Board's pursuit of price stability through sound monetary policy.

As the President's program began to be put into effect, we began to witness a fundamental change in the business climate in this country.

Real GNP growth has been restored to a strong, positive track. The 9.7 percent annual rate increase in the second quarter was the largest since 1978 and was followed by a 7.7 percent gain in the third quarter. Real growth this year is expected to be in the 6-1/2 percent range, measured fourth-quarter to fourth-quarter.

Particularly noteworthy is the fact that this high real growth is taking place in an environment of exceptionally low inflation. Increases in the CPI have been running in the 2-1/2 to 3 percent range for recent 12 month periods and increases for producer finished goods prices at only about 1-1/2 percent -- both the lowest since 1967. In 1979 and 1980 both indexes were advancing at a double-digit pace.

Interest rates have dropped with the prime falling from 21-1/2 percent in late 1980 to 11 percent currently.

Labor costs have moderated and productivity growth is clearly on the upswing.

The effect of our program's impact on the general economic outlook has shown up in surveys of consumer sentiment. The Survey Research Center at the University of Michigan, for example, reports that consumer confidence in the third quarter was at a ten-year high.

And, the Conference Board's survey of business confidence among 1500 corporate chief executives in the second quarter of this year reached a high for the seven-year history of the survey and results for the third quarter remained close to that peak.

This growing optimism reflects widespread recognition that investment fundamentals are better than they've been in over a decade.

The outlook for the rest of this year and beyond continues to be very favorable. All in all, currently available indicators suggest that the Administration's July forecast of 5-1/2 percent real growth fourth-to-fourth quarter in 1983 will probably be exceeded by a percentage point or so. So far there's no reason to change the estimate of 4-1/2 percent real growth in 1984, although there's potential for upside revision, should the momentum from this year spill over into next.

I think all of this is very good news. And it should be. With everything else business and industry has to face, it doesn't need a meddling government to create economic problems. Let me give you an example of what you'll be contending with in just one area -- that of demographics.

It goes without saying that we are living and working in the midst of constant change. Those of you here who are businessmen and women know all too well the importance of keeping up with social trends, changing technology and shifting economic patterns. To ensure that today's business success will also be tommorrow's success, you must keep abreast of all of these changes.

Let me cite some rather interesting demographic statistics to make the point.

Demographic trends of the last two decades have greatly influenced the major institutions in America, and I think we are only seeing the beginning. People over 65, for example, now constitute 12 percent of the population. In five decades they will make up 20 percent. Today, the majority of wives and a near majority of mothers are holding paying jobs. The typical husband/wife family is now one in which both spouses are breadwinners.

America's population is growing at about 1 percent. But this rate conceals large variations among various age groups. For example, during the 70s the student population (aged 5-17) declined by 14 percent, while the college and military age population increased by 17 percent. Home buyers grew by 49 percent and the heaviest consumers of health care (aged 65 and older) increased by 28 percent.

Certain sections of the country such as the south and west are exploding with 20-25 percent population increases while some other sections are actually losing population.

We think of ourselves as a manufacturing society. Yet, today 73 percent of our workforce is in the service sector, and only 27% in manufacturing.

The point of all of this is that this is a whale of a lot of change to keep up with. Such demographic shifts are going to have a heavy impact on the formulation of public policy through the rest of this century, and it is going to make the job of the entrepreneurs much more challenging. But these are trends that you as businessmen should follow because they will change the demand for certain products and services, increasing some while decreasing others.

But in spite of these changes -- and in some cases because of them -- I believe we can look forward to a future of a growing economy.

I don't think anyone can dispute the strides we've made in turning this country around. And the framework is certainly in place for continued improvement. But let me discuss now a threat to everything we are trying to accomplish.

The long term is very contingent on certain actions by Congress. All our work and progress will be in jeopardy at some point down the line if huge deficits caused by ever-increasing government spending remain unchecked.

Did you notice? I'm saying that deficits matter. They are a threat to economic well-being. I'm a little tired of being misrepresented by some who say I'm not concerned. Recently, the President and I were characterized in a newspaper as considering the deficits to be a "nuisance" rather than a serious threat. The real nuisance is that kind of misrepresentation. It's more than a nuisance, it's a disservice to the people, who have a right to the truth.

Deficits clearly point to a dangerous imbalance between spending and revenues. I know this, and the President knows this. I am very concerned. This Administration is very concerned. And we are committed to reducing the deficits through spending restraint, thereby reducing and eventually removing this threat to sustained growth.

But many legislators on Capitol Hill are urging, instead, that we raise taxes. This Administration will not consider new taxes simply to meet a bloated budget. We want spending reductions. We need spending reductions.

It was very popular in Congress in the couple of months before adjournment to float tax and spending cut packages. But the President made it very clear that any bill calling for tax increases was unacceptable. Let me tell you why. First of all, you only have to look back to 1982 to see what comes of these deals. That year, we signed on to one of those "packages." We accepted $98 billion in tax increases in return for $280 billion of spending cuts over three years. The $98 billion went through. We have yet to see the spending cuts.

Second, tax increases, which are usually sold as deficit reducers, have a funny way of being rerouted. Generally, about 30 cents on the dollar goes to deficit reduction, while the rest goes for more spending.

Third, raising taxes to bring down the deficit simply does not deal with the fundamental problem. Raising taxes would be, in effect, merely treating the symptom, and in the process, it makes the disease even worse.

Let's look at that disease. Let's look at what has really been happening in the area of spending. In 1970, revenues were about 20 percent of GNP, and spending was just slightly over 20 percent. Almost in balance. Little Problem. But, since 1970, federal outlays as a percentage of GNP have been rising at an annual rate of 1.8 percent. Since 1979, the rate has been a startling 4.6 percent. And because of this unchecked growth, we now have budget outlays equalling 25 percent of GNP while receipts are at 18.6 percent. The result: massive deficits.

True, revenues are down a little right now, partially due to the most recent recession. But revenues will rise as the economy gets into the expansionary phase of recovery. And, all other things being equal, spending will drop some because of less need for recession-induced benefits.

But it won't drop enough. Even looking at the best scenario for recovery, there will remain structural deficits large enough to cause us problems in the future.

Let me give you another perspective as to just how uncontrollable federal spending has become. This Administration, by the way, has slowed its annual growth from an inherited rate of 17 percent in 1980 to less than 10% currently and the projected rate next year is several percentage points lower. But, let's consider a 10 percent rate. At that rate of 10 percent, federal spending would double in just over 7 years! If that rate of 17 percent -- under the previous Administration -- had been allowed to continue, spending would have doubled in less than 4 1/2 years!

The unrestrained, irresponsible spending policies cannot be allowed to continue. And clearly there is room for cutting back. I don't agree with those who say domestic spending has been cut severely and therefore there's no more room for cuts. The

President's Private Sector Survey on Cost Control, also known as the Grace Commission, has come up with thousands of suggestions for cutting the budget and has identified roughly $300 billion in savings achievable over the next three years.

And anyone with even an inkling of what goes on in Washington knows there is an excessive preoccupaton with "I" or "my group" or "my interest." This special interest spending -- so often unneeded for anything but political reasons -- is of vast proportions, where the ax could be swung freely without harming legitimate programs.

In the coming months you are bound to hear more of the argument that the President's tax cuts and a defense buildup are the reasons for our revenue/spending imbalance. Recognize this for what it is: a ploy by the big spenders to shift the blame from themselves and an attempt to justify their push for tax increases. After all, if your occupation is spending tax dollars, you have to protect your franchise. Or if you're an observer of the scene, content to just look at the players, its easy to say raise taxes. But if you're a businessman who has to pay taxes, your ox is the one that's going to be gored.

Let's look at the tax argument to see how insincere it is. Tax rates were first cut in the Fall of 1981 and yet total revenues in fiscal year '82 increased by $18.5 billion dollars over the previous year, in the face of that tax cut, and a serious recession. In the next fiscal year income taxes were cut again, but total receipts will probably remain the same as the '82 level. Taxes for individuals were cut a third time five months ago, yet we're projecting a $68 billion dollar <u>increase</u> in revenues this year over last year. So, even with the tax cuts and the damaging effects of the recession, the government will take in considerably <u>more</u> money this year than in 1981, and still more in 1984.

It seems like a paradox -- to cut taxes but take in more revenue. But there's a little something at work here called incentive -- a key factor in the President's economic policies.

In the area of defense spending, while it's true this Administration has reversed a dangerous decline in military funding, we are still spending less as a percentage of GNP than during the two previous decades. For fiscal years 1966-1969, defense spending as a percent of GNP was at 8.7 percent. By the

years 1978-1981, it was down to 5.2 percent. Using actual and projected figures, the rate for the years 1982-1985 is 6.8 percent.

We can look at this in another, quite interesting fashion. In 1983, under Ronald Reagan, actual defense spending totaled $210.5 billion. Jimmy Carter, in submitting his projections for fiscal 1983, estimated that defense spending for that year would be $210.4 billion. Looking at defense spending in that perspective shows this so-called "large buildup" to be on the order of $100 million.

So, when you hear the various arguments for tax increases, keep this in mind: the so-called "conventional wisdom" often is no more than popular myth. And it will be used in some cases to exploit the system.

This Administration will continue to fight for prudent spending policies and more spending reductions. Congress has got to understand that what government wants to do must be tempered by what government can afford to do.

To summarize. This nation is clearly enjoying an economic resurgence and the future is bright for more growth and real, enduring prosperity for all Americans. But we must stick with sound policies to achieve our goals.

This Administration represents those sound policies. It has brought a radical departure from the failed policies of the past and offers hope, fairness and opportunity.

But we need your support. Organizations like the Board of Trade are our ambassadors. By your very existence you demonstrate the worthwhile ideals of enterprise, risk and hard work. Your efforts, individually and collectively, are clearly visible in this area. And I'm certain you will continue to play important roles in the bright future of Greater Washington's private sector.

Join us in a most noble task -- to spread the word of those ideals; to demonstrate that this country can be prosperous once again; and to bring about the America which we know is possible.

Thank you.

TREASURY NEWS

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

November 30, 1983

KATHERINE DAVALOS ORTEGA
TREASURER OF THE UNITED STATES,
NATIONAL DIRECTOR,
U.S. SAVINGS BOND DIVISION

Katherine Davalos Ortega, 49, was confirmed as the 38th Treasurer of the United States on September 22, 1983 and sworn-in by Treasury Secretary Donald Regan during a Rose Garden ceremony on October 3.

As Treasurer of the United States, Miss Ortega is responsible for an annual budget of more than $280 million and manages 5,000 employees located throughout the Bureau of Engraving and Printing, the Mint, and the U.S. Savings Bond Program. Miss Ortega is National Director of the U.S. Savings Bond Division and serves as a member of Secretary Regan's senior staff.

During Miss Ortega's first year as Treasurer, her signature will appear on 5.8 billion U.S. currency notes, with a value of more than $59.6 billion.

Miss Ortega has an extensive background in banking and accounting. She is a CPA and practiced with one of the "Big 8" accounting firms in Los Angeles. She later became a vice president with Pam American National Bank. She left Pam American to become president and director at Santa Ana State Bank in Southern California. As such, she had the distinction of being the first women president of a California Bank.

Immediately prior to accepting the appointment as Treasurer, Miss Ortega was serving as Commissioner of the Copyright Royalty Tribunal and has also served as a member of the President's Advisory Committee on Small and Minority Business.

Miss Ortega is a native of New Mexico, where her family has been in business since 1928. She graduated with honors from Eastern New Mexico University and holds a bachelor's degree in business and economics. Other awards and honors include: Outstanding Alumni Award, Eastern New Mexico University; Business and Professional Woman of the Year Award, Fullerton chapter; California Businesswomen's Achievement Award and the Damas de Commercio Outstanding Woman of the Year Award.

R-2438

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 29, 1983

RESULTS OF AUCTION OF 5-YEAR 2-MONTH NOTES

The Department of the Treasury has accepted $ 6,013 million of $17,866 million of tenders received from the public for the 5-year 2-month notes, Series G-1989, auctioned today. The notes will be issued December 1, 1983, and mature February 15, 1989.

The interest rate on the notes will be 11-3/8%. The range of accepted competitive bids, and the corresponding prices at the 11-3/8% interest rate are as follows:

	Yield	Price
Low	11.36%	99.934
High	11.37%	99.896
Average	11.37%	99.896

Tenders at the high yield were allotted 80%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 177,541	$ 25,441
New York	15,652,765	5,576,435
Philadelphia	12,298	12,298
Cleveland	112,395	37,395
Richmond	68,941	27,241
Atlanta	49,428	25,428
Chicago	625,475	110,035
St. Louis	93,419	72,619
Minneapolis	22,876	9,876
Kansas City	34,813	32,813
Dallas	11,840	6,240
San Francisco	1,002,451	75,451
Treasury	2,041	2,041
Totals	$17,866,283	$6,013,313

The $ 6,013 million of accepted tenders includes $ 536 million of noncompetitive tenders and $ 5,477 million of competitive tenders from the public.

In addition to the $6,013 million of tenders accepted in the auction process, $211 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities.

R-2439

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 30, 1983

RESULTS OF TREASURY'S AUCTION OF 62-DAY AND 153-DAY
CASH MANAGEMENT BILLS

Tenders for $ 2,502 million of 62-day Treasury bills and for $ 2,503 million of 153-day Treasury bills, both to be issued on December 2, 1983, were accepted at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS	62-day bills maturing February 2, 1984			153-day bills maturing May 3, 1984		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	8.73%	9.01%	98.497	9.00%	9.51%	96.175
High	8.74%	9.02%	98.495	9.04%	9.56%	96.158
Average	8.73%	9.01%	98.497	9.02%	9.53%	96.167

Tenders at the high discount rate for the 62-day bills were allotted 3%.
Tenders at the high discount rate for the 153-day bills were allotted 40%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 170,000	$ 1,050	$ 170,000	$ 4,000
New York	9,629,000	2,329,090	7,888,000	2,075,800
Philadelphia	--	--	--	--
Cleveland	--	--	30,000	19,000
Richmond	--	--	--	--
Atlanta	--	--	--	--
Chicago	1,330,000	71,500	1,114,000	175,600
St. Louis	2,000	--	3,000	2,000
Minneapolis	--	--	--	--
Kansas City	--	--	--	--
Dallas	--	--	--	--
San Francisco	935,000	100,000	1,000,000	227,000
TOTALS	$12,066,000	$2,501,640	$10,205,000	$2,503,400

1/ Equivalent coupon-issue yield.

R-2440

TREASURY NEWS

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

EMBARGOED FOR RELEASE UPON DELIVERY
Expected at 7:30 p.m. PDT
Thursday, December 1, 1983

REMARKS BY
DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE
STATESMAN OF THE YEAR AWARD BANQUET
SEATTLE, WASHINGTON
DECEMBER 1, 1983

Governor Spellman, ladies and gentlemen, good evening. It's a pleasure to be out here in the great Pacific Northwest. I know the people here take much pride in the natural beauty of this part of our country. And they can also take pride in themselves for fashioning a truly great community through the American ideals of courage, enterprise and hard work.

I want you to know that I deeply appreciate the selection as Statesman of the Year. Looking over a list of recent recipients, I find myself to be among very distinguished company. I am truly honored to join them for I take the designation of "statesman" very seriously. And I think it is evident that others down through history have felt the same way.

For instance, in a letter in 1701, the Earl of Shrewsbury wrote: "Had I a son I would sooner breed him a cobbler than courtier, and a hangman than statesman."

Or Harry Truman once quipped: "A statesman is a politician who's been dead ten or fifteen years."

Then there's the familiar comment that takes Truman's line a step further: "Now I know what a statesman is: a dead politician. (PAUSE) And the author added, "We need more statesmen."

Well, you can take any topic you like and someone will make a joke about it. But there is such a thing as a "statesman" -- a person who goes far beyond mastering the mechanics of politics, and one who possesses an abundance of wisdom, ability and integrity.

R-2441

Ironically, part of that familiar derogatory comment is true. We do need more statesmen. They are in short supply.

You here in the State of Washington have been fortunate enough to have had one in your midst for half a century. And you recently have mourned his passing. While the Reagan Administration did not always agree with Scoop Jackson, we admired him greatly. I knew him personally long before I joined this Administration. He was a good and dedicated Senator. If I might quote George Will: "Henry Jackson mastered the delicate balance of democracy, the art of being a servant to a vast public without being servile to any part of it."

In Senator Jackson's place we now have Dan Evans, who joins Slade Gordon to represent Washington in the Senate. I know that Dan will represent your state and our great nation well. In them you have two extremely able and competent voices.

This award tonight and your deeply appreciated recognition notwithstanding, I will leave to history's judgment my status as statesman. But I would like to spend a few moments discussing the ideal of statesmanship and key characteristics which I believe all statesmen have.

There is first, I think, in a statesman or would be statesman, the need for an undeniable and indispensible courage and foresight to go against the conventional wisdom. So much of what we have, what we are blessed with, stems from men and women throughout history who had vision, and then -- in the face of argument and often ridicule -- clung tenaciously to their beliefs and pushed forward.

True, it is much easier to sit back and conform. It is much safer to keep contrary opinions to oneself. It is much simpler to not rock the boat. But thank God that we have non-conformists, and the people I like to call contrarians, plus those who dare to make waves. Without them, society in all its aspects would be much the poorer -- with them we are so much richer.

Consider the great strides that have occurred because of such greats as Alexander Graham Bell, Thomas Edison, Albert Einstein, architect Frank Lloyd Wright and Jonas Salk. And the list goes on and on.

Your own city, your state, and indeed all society benefits tremendously because of the courage and foresight of people who defied some of the most reasonable wisdom of the day. Would Boeing be here tonight without the spectacular events of 1903 in Kitty Hawk? Where would we be if no one had had the courage to say and believe: "Yes, man can fly."

We still see this courage today. Maybe not enough, but it is there.

In 1980 there was a call to return to courage and to foresight. Ronald Reagan entered office with a plan to do no less than revitalize the economy of this nation. He resolved to go against the conventional wisdom accumulated over the past decades. Well, this Administration tested some of that old wisdom. We found it wanting.

Let me give you a few examples of what the traditional thinking predicted the President's policies would do, coupled with what has actually occurred.

Part of this Administration's four-pronged approach to restoring economic vitality involved cutting taxes. You are all familiar with the three-year, phased-in cuts which began in 1981. You may also recall the various cries of the critics that the Administration was playing with fire and the public was going to get burned -- with higher rates of inflation. Walter Heller, former Council of Economic Advsiers chairman in the Kennedy and Johnson Administrations, was one of the gloom and doom prophets. In 1981, months before the first phase of cuts, he asked: "How can the economy absorb that big an expansionary punch without aggravating our already intolerable inflation?"

That was the "conventional wisdom." Here's what actually happened. The rate of inflation dropped precipitously. After running at a double-digit pace in 1979 and 1980, we're now seeing a rate of about 3 percent for the 12 months which ended in October. When this Administration entered office, inflation was the number one concern of the American people. Two and one-half years ago if someone had predicted a 3 or 4 percent inflation in 1983, he would have been laughed at. But look where we are today. What has been accomplished in this area is nothing short of dramatic.

Another example. The conventional wisdom holds that deficits cause high interest rates. It's true that real rates of interest currently are higher than they should be. But that makes a flimsy argument for this situation being caused by deficits when you consider the following: In 1980 the prime rate was at the incredible and record-breaking level of 21 1/2 percent and 90-day commercial paper was almost at 20 percent. Those rates were reached during a period of deficits that were less than those of the past two years.

This Administration isn't saying that deficits don't matter. But we are saying that the evidence strongly suggests there is no singular, direct correlation between deficits and high rates of interest. We have studies that unambiguously support this conclusion. High rates of interest are caused by at least 3 things. Monetary policy, or the amount of money in circulation, inflationary fears for the future, and deficits.

If you keep up with the newspapers and the news programs, you may have been seeing lately that a number of the Administration's opponents on this issue have softened their stands and in some cases completely rejected the old conventional wisdom.

One more example. After Administration critics begrudgingly acknowledged that the nation would move into recovery, they still held that it would be sluggish. Walter Heller, again, said late last year, and I quote: "The strength of the recovery, in a word, will be lousy." Tell me what's lousy about real GNP growth of 9.7 percent and 7.7 percent in the second and third quarters of this year. Or tell me what's sluggish about unemployment dropping faster coming out of this recession than anyone thought possible. Indeed, this recovery is proving as strong or stronger than any recovery in 30 years.

And there are other examples where this Administration has been bold enough to challenge traditional thinking -- thinking which so often has held us back.

But, all the courage and foresight in the world does no good if it is not put to proper use. In 1710, Richard Steele, the English essayist, dramatist and political leader wrote: "The first and essential quality towards being a statesman is to have a public spirit." I think this Administration in general, and President Reagan in particular, has demonstrated a deep and sincere desire in this respect.

In the international arena for example, we have a clear understanding of the close link between our own American economy and the stability of the world economy. Beginning last year and continuing throughout this year, we have been faced with an extremely serious international debt situation. It would have been easy for us simply to say the problems of Brazil and Mexico and others are no concern of ours -- or that someone else should solve their problems.

But our view was, and continued to be, one of commitment to the strength of the entire global economy. So, we provided short-term assistance to several of the large debt nations while they worked on a renegotiation of their debt and IMF programs. We also fought hard -- and successfully, I might add -- for passage of an increase in funding for the International Monetary Fund. As you know the IMF bill was not a particularly popular piece of legislation. But we were committed to take the steps necessary for the long-term benefit of the international economic community and the preservation of the economic and political structure of many of our allies and friends in the developing world even if it meant possible sacrifice of some short-term political gain. That, in my view, is statesmanship.

On the domestic front, the President's policies are fair and sound. Through them we seek a strong America, where opportunity and prosperity are within the reach of all. Unfortunately, I can't say that all of our elected officials are helping us in this endeavor.

Whether for sincere but misguided reasons, or for reasons of self-interest, Congress is spending this country into trouble. There is nothing fair about fiscal policies that weaken the economy for everyone. There is nothing compassionate about policies that promote the status quo for the less-well-off. And there is nothing statesmanlike about policies that disregard the general welfare in favor of the welfare of the special interest group.

You have heard much discussion about our high budget deficits and you will be hearing much more next year. But remember, the deficits are only the symptom of the disease. And the disease is unrestrained spending.

This Administration has tried repeatedly to combat this runaway spending. We have submitted three budgets thus far, each calling for restrained spending levels, but not to the extent of harming defense, or needed domestic programs. In each of the first two, Congress authorized and appropriated total spending which far exceeded the President's request. In our most recent budget submission, the Administration proposed a level of spending that would reduce outlays by $89 billion over three years. Congress enacted virtually none of our proposed spending cuts.

What we are seeing is politics standing in the way of statesmanship. Those deficits, caused by excessive federal spending, pose a serious threat to our economic future. They simply must be reduced. The Constitution gives Congress the responsibility where matters of spending are concerned. Congress must exercise that responsibility, and exercise it now.

But, if the Congress is unable or unwilling to cut spending, expanded authority to do the job should be given to the President in the form of a line-item veto, or some type of impounding authority.

With such authority, federal spending could be directed without regard to the political forces which come to bear so much more on the Congress than on the Executive Branch.

Thomas Jefferson said: "I place economy among the first and most important virtues, and public debt as the greatest danger to feared. To preserve our independence, we must not let out leaders load us with perpetual debt. We must make our choice between economy and liberty, or profusion and servitude. If we can prevent the government from wasting the labors of the people under the pretense of caring for them, we will be wise."

If this nation learns to spend within its means, there is no reason that it cannot enter a period of enduring prosperity. The fundamentals are in place for this country to grow, strengthen and to offer all its people a brighter future. Let's not let this opportunity fade away. Let us work together to assure that we build the strongest possible America.

We all have it within ourselves to be statesmen, if we want to be. As Americans, we all have an obligation to strive to make things a little better. And it doesn't matter much whether your contributions are made at the town or county level, at the state level, or in Washington. What matters is that the contributions be made.

What matters is that we focus on the common good and have the courage to go beyond what "everyone thinks" -- to go beyond the conventional wisdom. And finally, what really matters is that we concern ourselves with the welfare of the entire nation. A statesman is someone who cares about the state -- someone who cares about the community -- as a whole. That is the perspective we need.

I want to thank you once again for the honor you have presented me tonight. I can promise you that I will continue to work very hard to live up to the ideals it represents.

Thank you.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 1, 1983

RESULTS OF TREASURY'S AUCTION OF 17-DAY CASH MANAGEMENT BILLS

Tenders for $5,006 million of 17-day Treasury bills to be issued on December 5, 1983, and to mature December 22, 1983, were accepted at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	8.85%	9.04%	99.582
High -	8.92%	9.10%	99.579
Average -	8.88%	9.06%	99.581

Tenders at the high discount rate were allotted 62%.

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

Location	Received	Accepted
Boston	$ 150,000	$ 65,500
New York	17,333,000	4,744,100
Philadelphia	--	--
Cleveland	--	--
Richmond	--	--
Atlanta	--	--
Chicago	1,151,000	152,500
St. Louis	--	--
Minneapolis	--	--
Kansas City	2,000	2,000
Dallas	--	--
San Francisco	571,000	42,240
TOTALS	$19,207,000	$5,006,340

R-2442

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 566-2041
FFB 566-2468

FOR IMMEDIATE RELEASE December 1, 1983

FEDERAL FINANCING BANK ACTIVITY

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

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies totaled $136.1 billion on September 30, 1983, an increase of $1.6 billion over the level on August 31, 1983. The increase included agency guaranteed debt of $0.8 billion, agency debt issues of $0.3 billion and agency assets of $0.5 billion. A total of 255 disbursements were made during the month.

For Fiscal Year 1983, FFB increased its holdings by $11.7 billion, compared to an increase of $17.1 billion in FY 1982. This includes increases of $1.3 billion for agency debt, $3.3 billion for agency assets and $7.1 billion for agency guaranteed debt.

Attached to this release are tables presenting FFB September loan activity; new FFB commitments to lend during September and FFB holdings as of September 30, 1983.

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R-2443

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 #309	9/30	$ 325,000,000.00	1/5/84	9.395%	
EXPORT-IMPORT BANK					
Note #51	9/1	383,000,000.00	9/1/93	12.105%	11.927% qtr.
Note #52	9/1	183,000,000.00	9/1/93	11.915%	11.743% qtr.
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #192	9/6	10,000,000.00	10/17/83	9.755%	
OFF-BUDGET AGENCY DEBT					
UNITED STATES RAILWAY ASSOCIATION					
Note #31	9/30	85,535,672.72	10/31/83	9.295%	
AGENCY ASSETS					
DEPARTMENT OF HEALTH & HUMAN SERVICES					
Health Maintenance Organization Notes					
Block # 31	9/26	967,268.51	7/1/05	11.830%	
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership					
	9/23	255,000,000.00	9/23/98	11.825%	12.175% ann.
	9/23	50,000,000.00	9/23/03	11.945%	12.302% ann.
RURAL ELECTRIFICATION ADMINISTRATION					
Certificate of Beneficial Ownership					
	9/30	156,800,000.00	9/30/13	11.605%	
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES					
El Salvador 6	9/1	737,500.00	5/15/95	12.075%	
Israel 8	9/1	62,285,439.53	9/1/09	12.195%	
Israel 14	9/1	28,870,205.84	4/25/13	12.267%	
Egypt 4	9/2	1,853,770.70	5/15/13	12.245%	
Thailand 6	9/2	125,901.00	9/20/85	11.305%	
Thailand 7	9/2	1,027,451.00	8/25/86	11.555%	
Honduras 7	9/2	29,926.04	9/25/91	12.055%	
Israel 14	9/6	9,089,360.00	4/25/13	13.245%	
Liberia 9	9/6	54,528.00	7/21/94	12.145%	
Thailand 9	9/6	564,700.00	9/15/93	12.125%	
El Salvador 6	9/7	1,298,854.00	5/15/95	11.932%	
Greece 14	9/8	923,125.00	4/30/11	11.915%	
El Salvador 6	9/9	500,000.00	5/15/95	11.865%	
Israel 8	9/9	1,704,660.00	9/1/09	11.965%	
Israel 14	9/9	7,851,000.27	4/25/13	12.010%	
Philippines 8	9/9	1,230,257.54	3/10/88	10.075%	
Spain 5	9/12	303,153.00	6/15/91	11.745%	
Egypt 4	9/14	527,336.00	5/15/13	11.915%	
Greece 14	9/14	319.556.00	4/30/11	11.845%	
Indonesia 7	9/14	110,739.86	3/20/90	11.665%	

+rollover

FEDERAL FINANCING BANK

SEPTEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES (Cont'd)					
Turkey 12	9/14	$ 796,652.70	5/5/11	11.903%	
Turkey 13	9/14	33,468,418.72	3/24/13	11.746%	
Turkey 14	9/14	1,328,641.00	11/30/13	11.765%	
Panama 4	9/14	230,638.99	5/25/89	11.585%	
Panama 5	9/14	1,389,973.03	7/20/93	11.353%	
Thailand 9	9/14	191,116.00	9/15/93	11.735%	
Thailand 3	9/15	43,212.44	9/20/84	10.415%	
Egypt 4	9/16	6,676,299.50	5/15/13	12.095%	
Honduras 10	9/16	19,193.82	11/30/94	11.915%	
Thailand 7	9/16	18,842.34	8/25/86	11.375%	
Thailand 10	9/16	7,126,352.00	7/10/94	11.821%	
Turkey 12	9/16	1,830,619.05	5/5/11	12.082%	
Ecuador 5	9/19	59,380.50	5/25/88	11.285%	
Ecuador 6	9/19	33,544.05	6/20/89	11.401%	
Kenya 10	9/19	125,212.00	5/5/94	11.565%	
El Salvador 6	9/20	502,657.00	5/15/95	11.725%	
Greece 14	9/20	1,699,069.00	4/30/11	11.875%	
Korea 16	9/20	6,951,977.42	12/31/94	11.764%	
Greece 14	9/21	602,500.00	4/30/11	11.815%	
Egypt 4	9/22	1,263,883.20	5/15/13	11.916%	
Israel 8	9/22	1,440,090.00	9/1/09	11.835%	
Israel 14	9/22	5,813,377.55	4/25/13	11.875%	
Lebanon 5	9/22	10,000,000.00	7/25/90	11.448%	
Lebanon 6	9/22	643,888.00	1/25/91	11.485%	
Spain 7	9/22	84,000,000.00	7/15/95	11.096%	
Thailand 10	9/22	1,564,621.92	7/10/94	11.675%	
Peru 8	9/22	60,843.03	12/15/88	11.315%	
Greece 14	9/23	2,134,845.43	4/30/11	11.838%	
Turkey 12	9/23	2,888,005.79	5/5/11	11.904%	
Turkey 14	9/23	321,512.00	11/30/12	11.745%	
Egypt 4	9/26	1,550,307.07	5/15/13	11.805%	
Honduras 10	9/26	3,803,835.60	11/30/94	11.615%	
Lebanon 3	9/26	1,773,298.69	7/25/87	11.215%	
Ecuador 5	9/27	184,836.00	5/25/88	11.013%	
Ecuador 6	9/27	140,272.26	6/20/89	11.075%	
Israel 14	9/27	8,303,256.15	4/25/13	11.687%	
Lebanon 6	9/27	1,598,197.59	1/25/91	11.360%	
Egypt 4	9/29	1,707,336.80	5/15/13	10.795%	
Jordan 9	9/29	1,052,028.51	11/25/91	10.294%	
DEPARTMENT OF ENERGY					
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #78	9/6	8,500,000.00	1/3/84	10.605%	
#79	9/12	7,000,000.00	1/3/84	10.515%	
#80	9/19	9,000,000.00	1/3/84	10.435%	
#81	9/26	6,500,000.00	1/3/84	10.245%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant Guarantees					
Owensboro, KY	9/1	466,973.43	9/1/87	11.378%	11.702% ann.
Columbia, SC	9/1	500,000.00	9/1/89	11.778%	12.125% ann.
Lansing, MI	9/1	300,000.00	9/1/88	11.675%	12.016% ann.
Gary, IN	9/1	487,000.00	9/1/87	11.661%	12.001% ann.
Newburgh, NY	9/1	90,000.00	8/1/84	10.665%	10.924% ann.
Syracuse Ind. Dev. Agency	9/1	80,000.00	7/1/04	12.179%	12.550% ann.
Hialeah, FL	9/14	26,681.00	12/1/83	9.565%	
St. Petersburg, FL	9/14	75,000.00	12/1/84	10.435%	10.707% ann.
Atlanta, GA	9/19	1,455,000.00	11/1/83	9.555%	
Philadelphia Auth. Ind. Dev.	9/19	1,500,000.00	10/1/03	11.878%	12.231% ann.
Baldwin Park, CA	9/23	172,500.00	8/15/84	10.085%	10.310% ann.
Kansas City, MO	9/30	100,000.00	6/15/84	9.895%	10.039% ann.
St. Petersburg, FL	9/30	85,000.00	12/1/84	10.255%	10.518% ann.
Tacoma, WA	9/30	105,250.00	10/15/03	11.700%	12.042% ann.

FEDERAL FINANCING BANK

SEPTEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Public Housing Notes					
Sale #40	9/7	$ 89,381,088.60	11/1/92--11/1/18	12.122%	12.489% ann.
Sale #41	9/9	33,859,119.33	11/1/97--11/1/18	11.848%	12.199% ann.
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	9/1	12,580,000.00	10/1/92	11.973%	12.331% ann.
	9/20	8,587,000.00	10/1/92	11.602%	11.939% ann.
DEPARTMENT OF THE NAVY - DEFENSE PRODUCTION ACT					
Gila River Indian Community	9/6	261,535.94	10/1/92	12.049%	11.873% qtr.
	9/26	125,821.58	10/1/92	11.527%	11.366% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
Kansas Electric #216	9/1	585,000.00	9/30/85	11.325%	11.169% qtr.
Saluda River Electric #186	9/1	5,637,000.00	9/1/85	11.305%	11.150% qtr.
South Mississippi Electric #171	9/1	1,800,000.00	9/2/85	11.305%	11.150% qtr
Arkansas Electric #143	9/1	2,852,000.00	12/31/17	12.133%	11.954% qtr.
Arkansas Electric #221	9/1	94,000.00	12/31/17	12.133%	11.954% qtr.
*Saluda River Electric #186	9/1	3,610,000.00	9/1/85	11.305%	11.150% qtr.
*S. Mississippi Electric #171	9/2	1,639,000.00	9/2/85	11.285%	11.130% qtr.
Oglethorpe Power #66	9/6	3,880,000.00	9/15/85	11.315%	11.159% qtr.
*United Power #67	9/6	4,100,000.00	9/6/86	11.615%	11.451% qtr.
*United Power #129	9/6	3,700,000.00	9/6/86	11.615%	11.451% qtr.
Cajun Electric #180	9/7	24,266,000.00	9/7/85	11.155%	11.004% qtr.
*Brazos Electric #108	9/8	1,100,000.00	9/8/85	11.005%	10.858% qtr.
Tex-La Electric #208	9/9	1,600,000.00	9/9/85	11.075%	10.926% qtr.
Big Rivers Electric #65	9/9	4,112,000.00	9/9/85	11.075%	10.926% qtr.
*Wabash Valley Power #104	9/10	3,161,000.00	9/10/85	11.055%	10.906% qtr.
*Wolverine Power #182	9/10	2,170,000.00	9/10/85	11.055%	10.906% qtr.
*Wolverine Power #101	9/10	520,000.00	9/10/85	11.055%	10.906% qtr.
*Wolverine Power #183	9/10	2,686,000.00	9/10/85	11.055%	10.906% qtr.
*Wolverine Power #100	9/10	2,222,000.00	9/10/86	11.335%	11.179% qtr.
*Dairyland Power #54	9/10	4,775,000.00	9/10/86	11.335%	11.179% qtr.
Wolverine Power #234	9/12	9,664,000.00	9/12/85	11.065%	10.916% qtr.
Wabash Valley Power #206	9/13	6,605,000.00	9/13/85	10.835%	10.692% qtr.
Oglethorpe Power #66	9/13	3,044,217.00	9/15/85	10.835%	10.692% qtr.
*Western Illinois Power #99	9/14	2,184,000.00	9/14/86	11.205%	11.052% qtr.
Dairyland Power #161	9/14	3,768,000.00	9/14/85	10.895%	10.751% qtr.
Dairyland Power #173	9/14	462,000.00	9/14/85	10.895%	10.751% qtr.
*United Power #139	9/14	6,750,000.00	12/31/15	11.796%	11.627% qtr.
*East Kentucky Power #73	9/15	4,700,000.00	9/15/85	11.005%	10.858% qtr.
N.E. Missouri Electric #217	9/15	438,000.00	9/15/85	11.005%	10.858% qtr.
New Hampshire Electric #192	9/15	1,253,000.00	9/16/85	11.005%	10.858% qtr.
*Central Electric Power #131	9/15	265,000.00	9/15/85	11.005%	10.858% qtr.
*Oglethorpe Power #74	9/15	25,429,000.00	9/15/85	11.005%	10.858% qtr.
*Oglethorpe Power #150	9/15	26,772,000.00	9/15/85	11.005%	10.858% qtr.
*Colorado Ute Electric #168	9/15	11,617,000.00	9/15/85	11.005%	10.858% qtr.
*East Kentucky Power #188	9/16	7,023,000.00	9/16/85	11.075%	10.926% qtr.
Seminole Electric #141	9/16	12,843,000.00	9/16/85	11.075%	10.926% qtr.
Deseret G&T #211	9/16	28,700,000.00	9/30/85	11.095%	10.945% qtr.
*Western Illinois Power #162	9/17	2,681,000.00	9/1/85	10.955%	10.809% qtr.
*Associated Electric #132	9/18	15,000,000.00	9/18/85	10.955%	10.809% qtr.
*Medina Electric #113	9/19	750,000.00	9/19/86	11.235%	11.082% qtr.
Sugarland Telephone #69	9/19	887,000.00	12/31/17	11.825%	11.655% qtr.
Chugach Electric #224	9/19	539,000.00	12/31/17	11.825%	11.655% qtr.
Pacific Northwest Gen. #118	9/20	220,000.00	12/31/17	11.820%	11.650% qtr.
*United Power #86	9/20	1,350,000.00	9/20/86	11.195%	11.093% qtr.
South Mississippi Electric #3	9/21	6,000,000.00	12/31/10	11.865%	11.694% qtr.
Big Rivers Electric #143	9/21	336,000.00	9/21/85	10.825%	10.682% qtr.
Big Rivers Electric #179	9/21	6,435,000.00	9/21/85	10.825%	10.682% qtr.
Kansas Electric #216	9/22	665,000.00	9/30/85	10.875%	10.731% qtr.
Basin Electric #137	9/23	25,000,000.00	9/23/85	10.875%	10.731% qtr.

*maturity extension

FEDERAL FINANCING BANK

SEPTEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
*Plains Electric #158	9/24	$ 47,000,000.00	12/30/83	9.365%	9.352% qtr.
*Upper Missouri G&T #172	9/25	233,000.00	9/25/85	10.735%	10.595% qtr.
*Buckeye Power #154	9/25	18,625,000.00	12/31/15	11.665%	11.500% qtr.
*East Ascension Telephone #39	9/26	1,100,000.00	12/31/13	11.682%	11.516% qtr.
East Kentucky Power #140	9/27	800,000.00	9/27/85	10.615%	10.478% qtr.
East Kentucky Power #188	9/27	2,000,000.00	9/27/85	10.615%	10.478% qtr.
North Carolina Electric #185	9/27	34,471,000.00	9/30/85	10.625%	10.488% qtr.
*North Carolina Electric #185	9/28	19,610,000.00	9/30/85	10.705%	10.565% qtr.
*Basin Electric #137	9/28	40,000,000.00	9/28/85	10.695%	10.556% qtr.
*Basin Electric #88	9/28	869,000.00	9/28/86	10.955%	10.809% qtr.
*South Mississippi Electric #3	9/28	155,000.00	9/26/86	10.955%	10.809% qtr.
*South Mississippi Electric #90	9/28	205,000.00	9/26/86	10.955%	10.809% qtr.
French Broad Electric #245	9/28	300,000.00	9/28/85	10.695%	10.556% qtr.
South Texas Electric #200	9/28	23,000.00	12/31/17	11.620%	11.456% qtr.
*Associated Electric #132	9/29	8,000,000.00	9/29/85	10.715%	10.575% qtr.
Colorado Ute Electric #168	9/29	10,976,000.00	9/29/85	10.715%	10.575% qtr.
Cooperative Power #70	9/29	12,300,000.00	9/29/85	10.715%	10.575% qtr.
Basin Electric #137	9/29	25,000,000.00	9/29/85	10.715%	10.575% qtr.
Oglethorpe Power #246	9/29	36,701,000.00	9/30/85	10.725%	10.585% qtr.
*Cajun Electric #147	9/29	10,000,000.00	9/29/85	10.715%	10.575% qtr.
*Cajun Electric #180	9/29	30,000,000.00	9/29/85	10.715%	10.575% qtr.
New Hampshire Electric #192	9/30	1,765,000.00	9/30/85	10.765%	10.624% qtr.
Basin Electric #232	9/30	2,058,000.00	9/30/85	10.765%	10.624% qtr.
Wabash Valley Power #206	9/30	11,392,000.00	9/30/85	10.765%	10.624% qtr.
Kansas Electric #216	9/30	5,300,000.00	9/30/85	10.765%	10.624% qtr.
Tex-La Electric #208	9/30	3,100,000.00	9/30/85	10.765%	10.624% qtr.
Sunflower Electric #174	9/30	2,200,000.00	9/30/85	10.765%	10.624% qtr.
Wolverine Power #234	9/30	16,704,000.00	9/30/85	10.765%	10.624% qtr.
Big Rivers Electric #179	9/30	12,436,000.00	9/30/85	10.765%	10.624% qtr.
South Mississippi Electric #171	9/30	7,881,000.00	9/30/85	10.765%	10.624% qtr.
Saluda River Electric #186	9/30	11,150,000.00	9/30/85	10.765%	10.624% qtr.
Arkansas Electric #142	9/30	1,839,000.00	12/31/17	11.657%	11.492% qtr.
*Corn Belt Power #166	9/30	660,000.00	9/30/85	10.765%	10.624% qtr.
*Wolverine Power #182	9/30	4,003,000.00	9/30/85	10.765%	10.624% qtr.
*Wolverine Power #183	9/30	4,905,000.00	9/30/85	10.765%	10.624% qtr.
*Brazos Electric #108	9/30	1,210,000.00	9/30/85	10.765%	10.624% qtr.
*Brazos Electric #144	9/30	3,613,000.00	9/30/85	10.765%	10.624% qtr.
*Seminole Electric #141	9/30	2,037,000.00	9/30/85	10.765%	10.624% qtr.
*Saluda River Electric #186	9/30	7,000,000.00	9/30/85	10.765%	10.624% qtr.
*Wabash Valley Power #104	9/30	5,634,000.00	9/30/85	10.765%	10.624% qtr.
*Central Electric #128	9/30	2,440,000.00	9/30/85	10.765%	10.624% qtr.
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
Nine County Dev. Corp.	9/7	14,000.00	9/1/98	12.118%	
Gr. Lockport Development Copr.	9/7	53,000.00	9/1/98	12.118%	
Gr. No.-Pulaski Deveopment Corp.	9/7	60,000.00	9/1/98	12.118%	
Texas Panhandle Reg. Dev. Co.	9/7	66,000.00	9/1/98	12.118%	
Worchester Bus. Dev. Corp.	9/7	93,000.00	9/1/98	12.118%	
Community Dev. Corp. of Ft. Wayne	9/7	121,000.00	9/1/98	12.118%	
Business Dev. Corp. of Nebraska	9/7	144,000.00	9/1/98	12.118%	
Brattleboro Dev. Credit Corp.	9/7	158,000.00	9/1/98	12.118%	
Atlanta Local Dev. Company	9/7	166,000.00	9/1/98	12.118%	
ARK-TEX Regional Dev. Co., Inc.	9/7	273,000.00	9/1/98	12.118%	
Milwaukee Econ. Dev. Corp.	9/7	441,000.00	9/1/98	12.118%	
Gr. Bakersfield Local Dev. Corp.	9/7	462,000.00	9/1/98	12.118%	
Empire State Certified Dev. Corp.	9/7	500,000.00	9/1/98	12.118%	
ARK-TEX Regional Dev. Co., Inc.	9/7	12,000.00	9/1/03	12.189%	
Gr. Kenosha Development Corp.	9/7	34,000.00	9/1/03	12.189%	
Long Island Development Corp.	9/7	35,000.00	9/1/03	12.189%	
Saint Paul 503 Development Co.	9/7	40,000.00	9/1/03	12.189%	
Los Medanos Fund	9/7	40,000.00	9/1/03	12.189%	
Fayetteville Progress, Inc.	9/7	45,000.00	9/1/03	12.189%	
Evergreen Com. Development Assoc.	9/7	63,000.00	9/1/03	12.189%	

*maturity extension

FEDERAL FINANCING BANK

SEPTEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
State & Local Development Company Debentures (Cont'd)					
Cleveland Citywide Corp.	9/7	$ 67,000.00	9/1/03	12.189%	
St. Louis Local Development Co.	9/7	69,000.00	9/1/03	12.189%	
1st Alabama Development Corp.	9/7	73,000.00	9/1/03	12.189%	
Greater West Side Dev. Corp.	9/7	81,000.00	9/1/03	12.189%	
1st Alabama Development Corp.	9/7	82,000.00	9/1/03	12.189%	
St. Paul 503 Development Company	9/7	82,000.00	9/1/03	12.189%	
Texas Certified Dev. Co., Inc.	9/7	82,000.00	9/1/03	12.189%	
Kalamazoo Sm. Bus. Dev. Corp.	9/7	88,000.00	9/1/03	12.189%	
Verd-Ark-CA Development Corp.	9/7	88,000.00	9/1/03	12.189%	
Bay Area Employment Dev. Co.	9/7	107,000.00	9/1/03	12.189%	
Akron Small Business Dev. Corp.	9/7	126,000.00	9/1/03	12.189%	
Columbus Countywide Dev. Corp.	9/7	126,000.00	9/1/03	12.189%	
Hamilton County Dev. Co., Inc.	9/7	134,000.00	9/1/03	12.189%	
Elizabeth Dev. Co. of New Jersey	9/7	137,000.00	9/1/03	12.189%	
Ashville-Buncombe Dev. Corp.	9/7	151,000.00	9/1/03	12.189%	
Community Dev. Corp. of Ft. Wayne	9/7	167,000.00	9/1/03	12.189%	
Long Island Dev. Corp.	9/7	175,000.00	9/1/03	12.189%	
Texas Certified Dev. Co., Inc.	9/7	198,000.00	9/1/03	12.189%	
Columbus Countywide Dev. Corp.	9/7	210,000.00	9/1/03	12.189%	
Gr. Bakersfield Local Dev. Corp.	9/7	231,000.00	9/1/03	12.189%	
Barren River Area Dev. Dis., Inc.	9/7	237,000.00	9/1/03	12.189%	
Econ. Dev. Corp. of Shasta County	9/7	240,000.00	9/1/03	12.189%	
Ocean State Bus. Dev. Auth., Inc.	9/7	244,000.00	9/1/03	12.189%	
Bay Colony Development Corp.	9/7	254,000.00	9/1/03	12.189%	
Texas Cert. Long Island Dev. Corp.	9/7	336,000.00	9/1/03	12.189%	
Bay Colony Development Corp.	9/7	357,000.00	9/1/03	12.189%	
CDC Business Development Corp.	9/7	386,000.00	9/1/03	12.189%	
Evergreen Community Dev. Corp.	9/7	450,000.00	9/1/03	12.189%	
Illinois Sm. Bus. Growth Corp.	9/7	500,000.00	9/1/03	12.189%	
Evergreen Community Dev. Corp.	9/7	500,000.00	9/1/03	12.189%	
St. Louis Local Development Co.	9/7	38,000.00	9/1/08	12.202%	
Nine County Development Inc.	9/7	39,000.00	9/1/08	12.202%	
Columbus Countywide Dev. Corp.	9/7	53,000.00	9/1/08	12.202%	
Springfield Cert. Dev. Company	9/7	60,000.00	9/1/08	12.202%	
Texas Cert. Dev. Co., Inc.	9/7	69,000.00	9/1/08	12.202%	
BEDCO Development Corp.	9/7	79,000.00	9/1/08	12.202%	
Oshkosh Com. Dev. Corp., Inc.	9/7	87,000.00	9/1/08	12.202%	
San Diego County L.D.C.	9/7	107,000.00	9/1/08	12.202%	
Worchester Bus. Dev. Corp.	9/7	119,000.00	9/1/08	12.202%	
Western Massachusetts S.B.A., Inc.	9/7	122,000.00	9/1/08	12.202%	
Mid-America Dev. Corp.	9/7	125,000.00	9/1/08	12.202%	
Tucson L.D.C. of Tucson	9/7	137,000.00	9/1/08	12.202%	
Duluth Bus. Assistance Corp.	9/7	161,000.00	9/1/08	12.202%	
ARK-TEX Regional Dev. Co., Inc.	9/7	168,000.00	9/1/08	12.202%	
San Diego County L.D.C.	9/7	189,000.00	9/1/08	12.202%	
Bay Area Employ. Dev. Co.	9/7	212,000.00	9/1/08	12.202%	
San Diego County L.D.C.	9/7	255,000.00	9/1/08	12.202%	
Columbus Countywide Dev. Corp.	9/7	267,000.00	9/1/08	12.202%	
City-Wide Sm. Bus. Dev. Corp.	9/7	270,000.00	9/1/08	12.202%	
Wilmington Ind. Dev., Inc.	9/7	313,000.00	9/1/08	12.202%	
Bay Colony Dev. Corp.	9/7	409,000.00	9/1/08	12.202%	
St. Louis Local Dev. Co.	9/7	500,000.00	9/1/08	12.202%	
Bay Area Bus. Dev. Co.	9/7	500,000.00	9/1/08	12.202%	
Small Business Investment Company Debentures					
CMNY Capital Co., Inc.	9/30	500,000.00	9/1/86	10.955%	
Edwards Capital Co.	9/30	600,000.00	9/1/86	10.955%	
Realty Growth Capital Co.	9/30	150,000.00	9/1/86	10.955%	
SBIC of Connecticut	9/30	250,000.00	9/1/88	11.345%	
Southeast Venture Capital, Inc.	9/30	1,000,000.00	9/1/88	11.345%	
Crosspoint Investment Corp.	9/30	300,000.00	9/1/90	11.585%	
Doan Resources Corp.	9/30	1,700,000.00	9/1/90	11.585%	
Bohlen Capital Corp.	9/30	1,000,000.00	9/1/93	11.615%	
Clinton Capital Corp.	9/30	500,000.00	9/1/93	11.615%	
1st Capital Corp. of Chicago	9/30	2,600,000.00	9/1/93	11.615%	
1st Connecticut SBIC	9/30	4,000,000.00	9/1/93	11.615%	
The Franklin Corporation	9/30	3,500,000.00	9/1/93	11.615%	
Gold Coast Capital Corp.	9/30	300,000.00	9/1/93	11.615%	
Lowcountry Investment Corp.	9/30	600,000.00	9/1/93		

FEDERAL FINANCING BANK

SEPTEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Small Business Investment Company Debentures (Cont'd)					
Mercantile Dallas Corp.	9/30	$ 2,000,000.00	9/1/93	11.615%	
Moramerica Capital Corp.	9/30	1,150,000.00	9/1/93	11.615%	
Nelson Capital Corp.	9/30	390,000.00	9/1/93	11.615%	
North Star Ventures, Inc.	9/30	3,000,000.00	9/1/93	11.615%	
San Joaquin Capital Corp.	9/30	400,000.00	9/1/93	11.615%	
SBAC of Panama City, Florida	9/30	1,500,000.00	9/1/93	11.615%	
Southeast Venture Capital, Inc.	9/30	1,000,000.00	9/1/93	11.615%	
Tamco Investors (SBIC), Inc.	9/30	100,000.00	9/1/93	11.615%	
Vermont Investment Capital, Inc.	9/30	100,000.00	9/1/93	11.615%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-82-12	9/30	512,075,501.74	12/30/83	9.245%	
DEPARTMENT OF TRANSPORTATION					
National Railroad Passenger Corporation (Amtrak)					
Note #31	9/26	4,600,000.00	10/3/83	9.345%	
Note #31	9/29	8,710,573.55	10/3/83	9.245%	
Note #31	9/30	10,062,750.43	10/3/83	9.295%	
Note #32	9/30	10,599,994.00	10/3/83	9.295%	
Section 511--4R Act					
Milwaukee Road #511-2	9/21	245,348.00	6/30/06	11.819%	

FEDERAL FINANCING BANK
September 1983 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Farmers Home Administration CBO's	n/a	$70.0 billion	9/30/84	n/a
Dade County, FL	HUD	5,300,000.00	7/15/89	7/15/89
Red. Auth. of Altoona, PA	HUD	400,000.00	7/1/84	7/31/91
Econ. Dev. & Ind. Corp. of Boston	HUD	5,000,000.00	9/1/85	9/1/05
Sommerville, MA	HUD	1,000,000.00	6/1/85	6/1/02
Kansas City, MO	HUD	7,000,000.00	6/15/84	6/15/89
Newburgh Ind. Dev. Agency	HUD HUD	660,000.00	8/1/84	8/1/84
Rochester, NY	HUD	5,000,000.00	8/15/84	8/15/84
Botswana	DOD	2,000,000.00	9/10/85	3/10/91
Cameroon	DOD	3,500,000.00	9/12/85	3/14/89
Cameroon	DOD	2,500,000.00	9/12/85	3/14/89
Dominican Republic	DOD	5,000,000.00	9/10/85	9/10/95
Ecuador	DOD	4,000,000.00	9/10/85	9/15/95
Gabon	DOD	1,000,000.00	9/20/85	3/20/89
Haiti	DOD	300,000.00	7/25/85	7/25/95
Indonesia	DOD	5,000,000.00	5/9/85	5/10/92
Jordon	DOD	11,500,000.00	9/10/85	3/10/92
Korea	DOD	130,000,000.00	8/31/85	6/30/95
Lebanon	DOD	90,000,000.00	7/25/85	7/25/91
Morocco	DOD	33,000,000.00	8/30/85	9/8/95
Morocco	DOD	22,000,000.00	9/12/85	9/21/95

FEDERAL FINANCING BANK
September 1983 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Niger	DOD	$12,000,000.00	5/15/85	5/15/95
Pakistan	DOD	60,000,000.00	9/10/85	9/10/95
Peru	DOD	4,000,000.00	9/10/85	9/15/95
Philippines	DOD	50,000,000.00	7/12/85	7/15/92
Portugal	DOD	52,500,000.00	9/10/85	9/10/95
Thailand	DOD	76,000,000.00	9/8/85	9/10/95
Tunisia	DOD	25,000,000.00	9/12/85	9/15/95
Yemen	DOD	4,000,000.00	7/25/85	7/25/95
Zaire	DOD	2,000,000.00	9/14/85	9/15/95

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	September 30, 1983	August 31, 1983	Net Change 9/1/83-9/30/83	Net Change 10/1/82-9/30/83
On-Budget Agency Debt				
Tennessee Valley Authority	$ 13,115.0	$ 12,950.0	$ 165.0	$ 830.0
Export-Import Bank	14,675.9	14,492.6	183.3	721.9
NCUA-Central Liquidity Facility	44.2	44.2	-0-	-85.9
Off-Budget Agency Debt				
U.S. Postal Service	1,154.0	1,154.0	-0-	-67.0
U.S. Railway Association	124.7	124.7	-0-	-70.1
Agency Assets				
Farmers Home Administration	56,691.0	56,386.0	305.0	2,955.0
DHHS-Health Maintenance Org.	118.8	119.6	-.8	-12.3
DHHS-Medical Facilities	143.7	143.7	-0-	-2.0
Overseas Private Investment Corp.	16.3	16.3	-0-	-5.2
Rural Electrification Admin.-CBO	3,467.5	3,310.7	156.8	343.8
Small Business Administration	48.5	49.2	-0.7	-9.6
Government-Guaranteed Lending				
DOD-Foreign Military Sales	14,293.4	14,069.0	224.4	2,857.5
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loans Guarantees	45.0	45.0	-0-	8.4
DOE-Non-Nuclear Act (Great Plains)	885.5	854.5	31.0	545.5
DHUD-Community Dev. Block Grant	177.3	181.1	-3.8	60.3
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,066.8	1,943.6	123.2	442.5
General Services Administration	417.3	417.3	-0-	-3.3
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	29.1	29.1	-0-	-0.4
NASA-Space Communications Co.	947.2	926.1	21.2	189.5
DON-Defense Production Act	1.1	0.7	0.4	1.1
Rural Electrification Admin.	18,938.9	18,637.7	301.2	2,657.4
SBA-Small Business Investment Cos.	804.3	801.9	2.4	92.3
SBA-State/Local Development Cos.	147.8	134.8	12.9	99.4
TVA-Seven States Energy Corp.	1,418.5	1,386.6	31.9	160.5
DOT-Amtrak	880.0	856.9	23.1	24.6
DOT-Section 511	183.5	183.3	0.2	-9.4
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 136,081.8	$ 134,505.0	$ 1,576.7	$ 11,724.5

*figures may not total due to rounding

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

December 5, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,223 million of 13-week bills and for $6,230 million of 26-week bills, both to be issued on December 8, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 8, 1984			:	26-week bills maturing June 7, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.98%a/	9.34%	97.730	:	9.14%	9.74%	95.379
High	9.00%	9.36%	97.725	:	9.16%	9.77%	95.369
Average	9.00%	9.36%	97.725	:	9.16%	9.77%	95.369

a/ Excepting 2 tenders totaling $3,600,000.

Tenders at the high discount rate for the 13-week bills were allotted 64%.
Tenders at the high discount rate for the 26-week bills were allotted 58%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 238,705	$ 103,955	:	$ 176,990	$ 57,290
New York	12,774,885	5,062,590	:	15,895,710	5,220,260
Philadelphia	28,020	28,020	:	20,140	20,140
Cleveland	123,370	82,970	:	106,460	48,060
Richmond	45,145	40,145	:	128,155	54,055
Atlanta	42,340	42,190	:	64,575	50,175
Chicago	1,722,830	214,290	:	1,125,390	165,065
St. Louis	86,475	75,960	:	86,840	71,765
Minneapolis	13,400	13,400	:	17,340	12,340
Kansas City	49,815	47,365	:	60,865	49,445
Dallas	27,355	25,555	:	27,725	25,625
San Francisco	805,565	233,880	:	921,275	191,075
Treasury	252,885	252,885	:	264,500	264,500
TOTALS	$16,210,790	$6,223,205	:	$18,895,965	$6,229,795
Type					
Competitive	$13,343,470	$3,355,885	:	$15,703,310	$3,037,140
Noncompetitive	1,058,645	1,058,645	:	933,245	933,245
Subtotal, Public	$14,402,115	$4,414,530	:	$16,636,555	$3,970,385
Federal Reserve	1,620,100	1,620,100	:	1,550,000	1,550,000
Foreign Official Institutions	188,575	188,575	:	709,410	709,410
TOTALS	$16,210,790	$6,223,205	:	$18,895,965	$6,229,795

An additional $16,625 thousand of 13-week bills and an additional $84,090 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

R-2444

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 5, 1983

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DEPUTY TREASURY SECRETARY MCNAMAR SEES RESOLUTION OF INTERNATIONAL DEBT SITUATION

Deputy Treasury Secretary R.T. (Tim) McNamar told a Philadelphia audience today that the international financial system is "poised on the threshold of a new beginning."

Speaking before the Fifth International Monetary and Trade Conference, Mr. McNamar outlined the reasons for the coming transition to the third phase of the debt problem which "should lead to an eventual resolution of the situation."

According to Mr. McNamar, the transition will occur because "the largest uncertainties have been resolved; the necessary additional resources have been secured for the International Monetary Fund (IMF); irrational restrictions that might have effectively terminated international lending have been avoided; and countries are enacting sound adjustment policies to improve their balance of payments prospects."

In the speech, the third phase was described as an orderly work-out of individual debt problems; the second phase, the period during which the worldwide financial community came to grips with the scope of the international debt problem; and the first phase was characterized by a crisis mentality and a concern over the debtor nations' liquidity.

Mr. McNamar compared the international debt problem to the second round of venture capital refinancing, a common business practice in the United States. "The countries involved have run into temporary financial difficulties. But we can all look forward to a bright future if the current situation is properly managed. I believe that it will be."

Mr. McNamar has served as Deputy Treasury Secretary since 1981. Before joining the Reagan Administration, he was Executive Vice President and Chief Financial Officer of the Beneficial Standard Corporation, a diversified financial services holding company in Los Angeles. Recently, Mr. McNamar became the first American to receive the Brazilian award, "Visconde de Cairu," in recognition of his active involvement in managing, on behalf of the U.S. Government, the Brazilian financial problems in 1982 and 1983.

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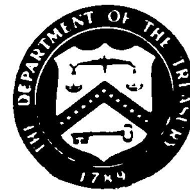
R-2445

TREASURY NEWS



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REMARKS BY THE HONORABLE R. T. MCNAMAR
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
FIFTH INTERNATIONAL MONETARY AND TRADE CONFERENCE
PHILADELPHIA, PENNSYLVANIA
December 5, 1983

THE INTERNATIONAL DEBT PROBLEM: WORKING OUT A SOLUTION

Good afternoon. Fifteen months ago, the international financial community was virtually paralyzed with fear. Mexico, Brazil, Argentina and Yugoslavia appeared on the brink of economic collapse. In Toronto, last September, the mood at the Annual Meeting of the International Monetary Fund and World Bank was almost universally morose. Fear was widespread that the world's banking system would collapse -- bringing an implosion of trade and inevitable worldwide depression.

But today we find ourselves in a different world. This year's IMF Annual Meeting was upbeat, positive, and forward looking. Financial flows have been at least temporarily restored. And developing countries from Mexico to Asia are adopting and implementing policies that will make them, once again, strong members of the free world's trading and financial systems.

Today I would like to explore with you the events that have brought us to the threshold of a new phase in the international debt problem; the third and final phase -- which should lead to an eventual resolution of the situation. But to comprehend fully the implications of this new phase, we must understand Phases I and II. And so this afternoon I wish to discuss:

* The origins of the LDC debt problem;

* Phase I: characterized by a crisis mentality and a concern over liquidity;

* Phase II: the period during which industrialized and developing countries alike came to grips with what had to be done to stabilize and strengthen the world economy; and

* Phase III: the time for an orderly work-out of the debt problems in the coming years.

ORIGINS OF THE PROBLEM

The LDC debt problem was created by the global economic environment of the 1970's.

First, rapid oil price increases drained financial resources from the LDCs into the hands of a few OPEC members. A study by the Institute for International Economics traces $260 billion of LDC debt -- 53 percent of the total increase in non-oil LDC debt between 1973 and 1982 -- directly to the OPEC oil price increases. In addition, in the creditor countries, high inflation, even higher commodity prices, and negative real interest rates -- that is, interest rates below the level of inflation -- distorted the world's economy. And inflationary expectations for the future became the norm for the world's policymakers and private citizens.

Debt Build-up Explainable

Under these conditions, the build-up of developing country debt is explainable.

From the LDC's point of view, borrowing appeared to make sense because creditor countries' inflation rates often exceeded the interest rates on the loans. In such an environnment, virtually any increase in debt is rational -- because by the next year, while interest costs will have added to the level of debt, inflation will have increased the nominal value of exports even more. Debt burdens -- even if onerous at first -- could be counted on through inflation to ease over time. Indeed, Brazil, Korea, and the Philippines borrowed externally to build indigenous energy capacity to decrease their sharply higher oil bills. Accordingly, many LDCs tended to seek as much additional debt as the lenders would provide.

From the bankers' perspective, the build-up of debt was also understandable. Between 1974 and 1981, OPEC's cumulative current account surplus totalled some $386 billion. Lacking adequate internal investment opportunities, these countries placed excess funds in the world's major banks. The banks found that the borrowers most willing to pay for loans were the newly industrializing developing countries. In addition, banks could point to healthy future prospects for many LDCs, such as Mexico with its vast oil reserves, and Brazil, whose exports grew tenfold between 1969 and 1981.

And, of course, conventional wisdom was that high inflation and negative real interest rates and ever higher oil prices would continue. For example, the Blue Chip Economic Forecast in November 1980 foresaw U.S. inflation rising from its average of 7.3 percent in the second half of the 1970's to 8.9 percent for the period between 1981 to 1985. And real interest rates were predicted to rise by only 3/4 of one percent over the negative levels experienced in the late 1970's. In short, too many people assumed the environment wouldn't change.

LDCs and Bankers Made Mistakes

But, while the developing countries and bankers acted rationally on the whole, they also made mistakes.

Many developing countries chose to avoid adjusting economic policies to accept temporary reductions in living standards caused by the drain of real wealth to OPEC. Rather, they chose to borrow to finance current consumption. They often spent the money unwisely, such as in subsidizing utility, food, and housing costs. Finally, they erroneously assumed that debt could always be refinanced or rolled over, and therefore did not adequately manage the maturity structures of their debt and the debt service requirements.

Bankers, too, made mistakes. Eager to lend, they fell into short-sighted competition and accepted clearly inadequate spreads. By too often focusing on front-end fees to increase current earnings and ignoring the total rate of return over the life of their loans, they bid the rates down to a level that did not adequately reflect the risk involved.

Finally, creditor governments share some blame, for they turned a blind eye toward -- or even encouraged, in the case of petrodollar recycling -- the above practices.

1980's Change

The environment of the 1970's could not continue forever, and the 1980's brought rapid and dramatic changes.

Inflation rates declined dramatically. The consumer price indices in the U.S. and other OECD nations fell from 13 percent in 1980 to 3.7 percent in the U.S. and 5 percent for the OECD thus far in 1983. Oil prices declined significantly. Interest rates fell, but the real rate of interest rose from negative levels in the 1970's to near plus 5 percent today. Countries which had borrowed on the thesis of negative real interest rates rapidly came to bear the full burden of their debts.

Furthermore, the world suffered the longest and deepest recession since World War II, causing LDC commodity exports to fall dramatically. Non-fuel commodity prices dropped 20 percent during the 1980 to 1982 period, while volume also decreased or stagnated. Thus, at the very time when debt service burdens were escalating, the developing countries' sources of hard currency earning were evaporating.

The situation was untenable; the debt problem inevitable.

PHASE I:
LIQUIDITY SQUEEZE
CRISIS MENTALITY

For some time, the U.S. Treasury and Federal Reserve had been concerned about the LDC debt situation. Throughout the spring and summer of 1982, we increased our monitoring activities.

For example, we held a number of meetings with Mexican financial officials throughout 1981 and 1982, and requested -- but never received -- in-depth analysis and consultations with Mexico's Lopez-Portillo Administration in the spring of 1982. In addition to Mexico, we were also keeping a close eye on the Argentine debt situation as a result of the Malvinas conflict.

Phase I of the debt problem is usually dated as beginning on Thursday, August 12, 1982. On that day, Mexico's recently appointed Finance Minister, Jesus Silva-Herzog, called the Treasury to say that Mexico would completely exhaust its foreign exchange reserves by the following Monday. The next day, the Mexican Finance Minister was in Washington. Over an intensive weekend, the U.S. Government arranged to prepay $1 billion for oil shipments to the Strategic Petroleum Reserve and provide $1 billion to Mexico in CCC guarantees. The Treasury, Federal Reserve and the BIS agreed to bridge loans totalling $1.85 billion. Mexico squeezed by, but a crisis mentality developed almost immediately.

International confidence in the ability of the largest developing countries to service their debts had been dealt a staggering blow. With its vast oil reserves, Mexico had been considered among the most creditworthy of the LDCs. And within three weeks, the financial world was shaken again by similar problems in Brazil and Yugoslavia. In Argentina, the economic situation continued to deteriorate. By February, some fifteen countries had encountered severe debt servicing problems, involving moratoria, extraordinary financing and forced reschedulings.

Three Characteristics

In retrospect, Phase I can be distinguished by:

- -- Extreme liquidity problems for the debtors. Although their long-term economic prospects continued to be positive, the sudden constriction of international lending caused a major shortage of hard currency for many developing countries. The rollover assumption was shattered.

- -- An atmosphere of impending crisis. Genuine fear of a collapse of the banking system and subsequent

collapse of trade and a worldwide depression permeated the financial community. Although these fears were overblown and exaggerated by a press that didn't understand at first, I cannot overstate the morose atmosphere at the Toronto IMF/World Bank Annual Meeting in September 1982.

-- A global lack of experience in dealing with such problems. Financial institutions and government leaders had not dealt with problems of this magnitude and number. No one fully understood the nature or dimensions of the problem. Yet, through the leadership of the U.S. monetary authorities, the IMF, the BIS, and the cooperation of commercial banks and other creditor governments, disaster was avoided. Perhaps most importantly, the experience showed us that while the system was stretched thin at times, it could and did respond in rational, predictable ways.

PHASE II: COMING TO TERMS WITH THE CHALLENGE

By February 1983, the monetary system had reached the brink and was coming back; Phase II had begun. Substantial progress had been made in settling some of the financial problems of key LDCs, and our knowledge and understanding of the debt problem had increased dramatically. And, confidence had been restored that the world's financial system would not immediately collapse.

Progress: Financial arrangements for the largest debtors were coming together by this time. Mexico's IMF program had been negotiated and their bank package was assured by late December 1982. Argentina signed an agreement with the IMF in January, and Brazil signed in late February. Although these latter two programs would need to be reworked later, they established at least a temporary stability. Yugoslavia completed an important package in February.

Equally important to the individual country progress, an early IMF Interim Committee Meeting (previously called for by the United States) was held in February. The Interim Committee agreed to an accelerated schedule for an increase in each member's IMF quota.

At the same time, the G-10 agreed to the U.S. proposal to modify and expand the IMF General Agreement to Borrow (GAB). This was designed to serve as a standby borrowing arrangement for the IMF in emergency situations which might threaten the stability of the system. For the first time, there would be some safety net for the international financial system.

Knowledge: Also, by February our knowledge and understanding of the LDC debt problem had improved. A process for handling the debt problems involving the IMF, the BIS, creditor governments, bank regulators, bank advisory groups and debtor governments had emerged.

Confidence: Finally, confidence had been restored. Most of the world's financial experts agreed that there would be no collapse of the world's financial and banking system. Only the press were left to predict such dire consequences.

Characteristics

The most significant characteristic of the second phase of the LDC debt problem was the establishment of IMF programs and financial arrangements with the debtor nations. A few, smaller countries completed IMF standby arrangements in the last quarter of 1982, but most of the standby and extended fund arrangements were established in Phase II. Since January of 1983, IMF programs have begun for 33 countries, and 14 countries have completed rescheduling agreements.

Phase II can be further characterized by a succession of country specific or mini-crises. Every deadline on every loan in every country has seemed to bring a new mini-crisis. More country specific problems have erupted around the quarterly performance reviews with the IMF (such as in the cases of Brazil, Argentina, Peru, etc.). But these are mini-crises -- not systemic threats. Each can be solved. And, in the years ahead, it's safe to predict that more mini-crises will inevitably occur. Conditions change, bringing new challenges and new mini-crises -- but they, too, will be managed.

The third characteristic of Phase II is the the rise and fall of the notions of a debtor's cartel or calls for "global solutions." Debtor countries have come to realize that each country's situation is unique and requires a unique solution. In addition, developing countries, especially newly industrializing ones, realize that their prospects for future growth are enhanced by continued cooperation with the industrialized countries and the banking community, rather than by confrontation and acrimony.

Similarly, "global bailout schemes" also emerged and declined during this phase. These schemes, like the so-called debtor's cartel, failed to recognize the uniqueness of each debtor's situation and the importance of continued involvement and cooperation by creditor banks and governments on an individual basis.

Concepts Developed and Lessons Learned

Key concepts were being developed in Phase II. These concepts evolved into a publicly announced five-point U.S.

strategy for resolving the international debt problem. It consists of:

1. Adoption of policies by industrialized governments to promote sustained non-inflationary growth.
2. The encouragement of sound economic policies within LDCs to allow them to live within their resources.
3. Strengthening of international financial institutions such as the IMF.
4. The encouragement of continued commercial bank lending.
5. Continued willingness to provide bridge financing where necessary.

Phase II has taught us a number of important lessons. It has reaffirmed that the LDC debt problem is indeed a major liquidity problem, not a situation of economic collapse and political chaos.

It has reassured us that there is some stability in the international financial system -- that evolution, not revolution, in the monetary system is required. It has shown that interbank funding is perhaps more resilient than at first thought and that free governments of the debtor nations do behave responsibly and in their own self-interest. We have seen that most bankers can and will behave responsibly. And we have learned something about the dangers of hastily conceived financial plans such as that attempted in the first Brazil financing program.

Perhaps Phase II can best be described as a learning experience. We learned the international financial system can work, but that each workout program must be tailored to the individual country's requirements and capabilities.

PHASE III:
MEETING THE CHALLENGE;
WORKING OUT THE PROBLEMS

Today, at the end of 1983, Phase II is coming to a close, and we find ourselves in a transition to Phase III -- a new beginning for the world financial system. For the remainder of my time, I'd like to examine this phase in some detail, by discussing:

-- The transition to Phase III

-- Key components of a successful Phase III

-- External threats to the resolution

-- The need for progress

Transition to Phase III

Why do I see year-end 1983 as the transition to Phase III? Because the largest uncertainties have been resolved: the necessary additional resources have been secured for the IMF and irrational restrictions that might have effectively terminated international lending have been avoided.

First the IMF. The IMF announced last Thursday that 129 countries, accounting for 96 percent of the total quota increase, have approved their additional funds, and the quota increase will therefore be implemented. This will provide some $33 billion in new resources.

And, through the U.S. initiative, for the first time the General Agreement to Borrow has been modified to provide a safety net to the international financial system. If required for systemic threats, this arrangement could provide up to SDR 17 billion to the IMF in emergency situations beyond normal IMF resources.

The second largest uncertainty in this scenario has also been removed. We have in the past month seen the reform of international lending laws in the U.S. and a similar parliamentary debate in Germany. Revised Administration guidance on international lending has been developed in Japan. These actions remove the possibility of overly restrictive legislation that would cut off future international lending. These new laws should curb excesses, while providing incentives for continued bank participation in restructuring existing debts and providing additional financing. In fact, additional disclosure and enhanced capital requirements will strengthen the banking system.

Components of Phase III

The components, or characteristics of Phase III constitute the implementation of the 5-point strategy plan I mentioned earlier. Let's examine the elements of each in context of where we are today.

Point 1. Industrialized governments should adopt policies to sustain non-inflationary growth.

Today, we see that economic growth is strong. In the U.S., the recovery is well-established, with the U.S. economy growing at a real rate of about 6.5 percent in 1983, and a forecast rate that should be above 4.5 percent in 1984.

Japan achieved a 4 percent annual growth rate in the second quarter and is continuing stronger than originally expected. Germany has seen three quarters of improving growth this year. And the news from other countries is good. OECD Secretary General Van Lennep recently said that overall OECD growth is likely to be well above 3 percent in 1983, and 1984's growth should be over 4 percent.

For the LDCs, their own economic recoveries depend on their ability to increase exports to the OECD countries and to each other. Clearly, there must be sufficient worldwide demand for debtor country exports to enable them to reduce their debt service ratios to manageable, sustainable levels. Recent studies by Morgan Guaranty, the Institute for International Economics, and others, suggest that demand for LDC exports is in large part a function of OECD real economic growth rates. A key threshold for LDC exports is for the OECD growth rate to reach 3 to 3 1/2 percent. Given current OECD growth rates, this should occur. These data are consistent with internal U.S. Government projections.

And, most industrialized countries are revising their growth estimates upward. And we are now seeing an upturn in key commodity indicators. For example, "The Economist's" commodity price index has increased some 23 percent since the beginning of the year. Thus both the volume of LDC non-oil commodity exports and their prices have been increasing.

<u>Point 2. LDCs must be encouraged to follow sound economic policies to allow them to live within their resources</u>.

At this time, the evidence thus far on this point is mixed. On the one hand, Mexico's performance has been exemplary. The IMF recently approved a revised Brazilian program adopted by the deomcratically elected Congress. The new government in Argentina assumes office on December 10, and it has indicated its intention to adopt sounder economic policies to revive that economy. Korea has announced new policies to ensure that it maintains a suitable debt service ratio.

On the other hand, of the 42 programs initiated over the past fifteen months, 13 (or 31 percent) have faced temporary funding interruptions due to non-compliance. Thus, while two-thirds have proceeded without interruption, a number have had problems.

In general, I am hopeful that future progress will be smoother. The most difficult periods for any country occur at the beginning of economic adjustment programs. Expectations, past practices, and domestic politics must all be altered in relatively few months, but the benefits require time. We have seen that in the United States. However, it is reasonable to predict that fewer problems should arise in the coming years.

Point 3. The IMF and other international financial institutions must be strengthened to meet the growing needs of the system.

The IMF, as an example, has proven to the financial community that it has the capacity to meet the demands, both from a financial and managerial perspective.

On the financial side, the IMF now has an improved balance of inflows and outflows. We have discussed the inflows, or new resources. Just as important, policies have been adopted which should match outflows to the level of resources. The debate at this year's Annual Meeting over the access formula resulted in the adoption of policies that will allow the IMF to keep a "balanced book" over the next few years.

The IMF should also be managerially capable of meeting the demands. Forty-two countries have initiated IMF programs over the last fifteen months -- at the same time as the IMF concentrated on quota increases and borrowing. Given that monitoring requires less managerial effort than initiating new programs, the Executive Board and Fund staff are likely to be less stretched in the future.

Point 4. Continued commercial bank lending must be encouraged.

New lending and the refinancing of existing debt through rollovers and extension of maturities must occur. We have seen that so-called "involuntary lending" is a viable source of at least interim or temporary financing. This was recently demonstrated by the level of bank commitments to the $6.5 billion package for Brazil, and the willingness of banks to roll over debts maturing in 1984.

The banking community realizes that the future prospects of most major debtor countries are bright, and that it would be a serious mistake to jeopardize the soundness of the large volume of existing loans by refusing to make relatively small additional loans. Having said this, I do expect that in Phase III banking syndication mini-crises will continue as some banks attempt to remove themselves from international lending. And, long and extremely difficult negotiations over lengths of grace periods, tenor, fees, spreads, and other terms will continue to produce country specific mini-crises for the foreseeable future.

Point 5. There must be continued willingness and capability to provide bridge financing where necessary.

The BIS has met, and continues to meet its challenge, by assembly multilateral bridging packages -- such as in the cases of Mexico and Brazil.

Since August 1982, the BIS has assembled or participated in over $4 billion of bridging operations for key LDCs. The successful repayment of all these bridges again places the BIS in position to respond to future crises, should they develop. And, I have confidence that monetary authorities around the world in the creditor countries can and will meet any as yet unanticipated challenge.

Threats to the Resolution

Under the conditions I've described, the debt problem should materially ease over the next several years. For example, analytical studies by the Institute for International Economics show the debt service ratios of over 20 key debtors declining by an average of some 21 percent over the 1983-86 time period. But this resolution of the problem depends on avoiding the major external threats to the resolution of the LDC debt problem being avoided.

As I see it, the three major threats to resolving the problem are: protectionism; a possible resurgence of high interest rates; and potential oil price increases.

- -- It is within the industrialized nations' power to avoid protectionism. However, the record is mixed. In the U.S., we have been partially successful in resisting protectionism. But we have recently seen the House of Representatives pass disastrous domestic content legislation. There are increasing calls for an "industrial policy," and even a politically potent call for a a fixed quota on imports of carbon steel. The U.S.-Japanese voluntary auto limitation has been extended another year. In Japan, the trend is in the right direction, but progress has been agonizingly slow considering their highly protectionist starting point. In Europe, the recent record has not been good, and recent calls for additional agricultural restrictions bode ill. Finally, the LDCs often contribute to the problem of protectionism by unfairly subsidizing their exports. This builds political pressure to limit their exports to the developed countries.

- -- I am less concerned about increases in interest rates. Over time, pressure should be for decreases in interest rates. U.S. interest rates are high in real terms, considering that inflation is expected to remain low and U.S. monetary policy appears to be appropriate. However, despite my optimism, I recognize that interest rates pose a serious threat. Each one percent rise in LIBOR adds $3 billion to the annual debt service of the LDCs and makes

resolution of the problem that more difficult. The U.S. in particular must pursue policies to lessen the pressure on U.S. interest rates.

-- Concerning oil prices, the outlook is reasonably favorable. Economist Michael Evans predicts that there is as much as a 50/50 chance that OPEC will be forced to again lower its oil prices, perhaps by as much as $4 per barrel, this winter. Salomon Brothers and a number of others have concurred in the view that oil prices may fall. Since September, despite Iraq's new jets and Iranian threats against Gulf shipping, spot prices for foreign crudes have been $0.50 per barrel or more below long-term contract levels. The USSR just last week cut prices on its Ural crude by $0.25 per barrel. However, steady to lower oil prices are critical if we are to see an easing of the debt problem. Every $1 increase in oil prices costs the oil importing LDCs some $1.3 billion per year in foreign exchange. Equally important, major oil price increases lower the industrialized countries' growth rates, causing reductions in LDC export prices and volume. And, they can ultimately result in higher inflation and lowered living standards. When they meet later this month, I hope OPEC energy ministers will be mindful of these effects. They can participate in the solution to the problem or can exacerbate it.

The Need for Further Progress

On the whole, I am reasonably optimistic about Phase III. Some might suggest I am Pollyannish, but taking a longer view, I do see substantial progress. I believe Phase III will bring a resolution of the debt problem. This resolution will not occur at the same time for all countries, and "graduation" from the debt problem is likely to be at least a couple of years away for even those countries in the most favorable situations. When will a country graduate? I would suggest that a country's debt problem can be considered resolved when:

-- The country's debt service ratio is in a manageable, sustainable range for two to three years in a row.

-- There has been a resumption of voluntary lending, as evidenced by over-subscription or competition among banks for new financings.

-- An active convertible-currency bond market exists for that country's debentures.

-- The central bank of the debtor country has adequate foreign exchange reserves to weather temporary (for example, one-year) interruptions in loans from overseas sources.

-- The economy of the country has increased real per capita incomes for at least two years in a row.

As I said, Phase III will bring resolution of the debt problem. But progress in Phase III is not automatic. Developing countries must adopt policies which strengthen their own position, for example, encouraging more direct foreign investment. Such investment improves their balance of payments, increases employment and transfers technology to the developing country. Fortunately, some progress is being made in this area. This month's Institutional Investor contains numerous examples of pro-equity investment actions by such countries as Mexico, Jamaica, Indonesia, South Korea, India, and Taiwan. However, as the article indicates, more needs to be done.

A second major constructive action that developing countries should take is to eliminate unnecessary export subsidies. These subsidies increase the country's external borrowing requirements by contributing to government deficits and lead to protectionist actions in the developed countries, which ultimately reduce access to their markets. By contrast, over time a properly valued currency and natural comparative advantages will provide the necessary stimulus to increase most countries' exports. In an interdependent world, exporting developing countries can't expect to unilaterally pursue beggar-thy-neighbor policies while being financed by the importing creditor countries that have the highest unemployment in a generation.

In addition, it's reasonable to anticipate that debtor countries will begin to develop special financial arrangements to overcome individual difficulties. For example, some may wish to utilize discounted prepayments for marketable commodities in order to balance seasonal or irregular cash flows. Others may wish to consider issuing bonds that are indexed against future currency devaluations or backed by future exports; e.g. Argentina could use wheat. Still others may shift to bonds the face value of which is tied to an export price. So-called petro-bonds have been discussed for some time. Perhaps in time a Nigeria, Venezuela or Mexico may consider issuing these to retire currently outstanding medium-term commercial bank debt. My point is that during the coming years it is reasonable to anticipate a wide variety of new and innovative financing ideas from the debtor countries.

Just as the debtors adapt, so must the creditors. There must be better understanding of the problem itself. Although I have made the distinction today between liquidity and solvency, it is in fact too simplistic an analogy to describe the developing country debt situation. In addition, the ratios used

to describe the country's health -- for example, debt service to exports or debt to GNP -- are also in themselves inadequate. Better dynamic analysis of the country's macroeconomic progress and the interrelationship of its prospects with the rest of the world is crucial. Fortunately, I believe demonstrable progress is being made in this regard.

In addition, creditor banks must set aside adequate reserves against losses in order to insulate themselves from the predictable problems of individual borrowers as we move from mini-crisis to mini-crisis in the next several years. And, I would anticipate that banks and other financial intermediaries will increasingly swap existing loans with each other to avoid over-concentration. This rebalancing of bank portfolios to lessen concentration, recognize actual values, and manage the timing of recognition of paper and tax gains and losses will ultimately strengthen the financial system. Just as the world's reinsurers spread the risk of a hurricane or natural disaster beyond the primary writer of the insurance, so too resyndication and dispersion of the international debt where it will be less concentrated also will promote both stability and a willingness to restructure and lend the fresh money that will be required during Phase III.

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The international debt problem is analogous to the so-called "second round" of financing venture capital companies in the United States. As you may know, venture capital refers to investments by established institutions in new start-up companies which have a bright future but which are currently short of the necessary capital to realize their potential. Initial investments in these companies provide for development and growth, but often substantial additional funds are needed before the company can realize its full potential and become self-supporting.

In the sense of their external capital needs and financing requirements, today's newly industrializing nations are going through a second round of venture capital refinancing, but on an international scale. The countries involved have run into temporary financial difficulties. But all agree that the future potential is quite bright if the current liquidity situation can be managed. I think it can be.

Phase III will bring the resolution to the international debt problem. Phases I and II well illustrated our global

interdependence. That interdependence of the international trading and monetary systems, mutual economic aspirations, shared democratic ideals, and resiliency of the human spirit augur well for the future. I look forward to that future.

Thank you.

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TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.

December 6, 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 December 15, 1983. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,463 million, including $658 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $3,206 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 September 15, 1983, and to mature March 15, 1984 (CUSIP No. 912794 ES 9), currently outstanding in the amount of $6,227 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 June 16, 1983, and to mature June 14, 1984 (CUSIP No. 912794 EH 3), currently outstanding in the amount of $7,776 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 December 15, 1983. 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.

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-2446

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, December 12, 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 December 15, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 15, 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

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Remarks by Beryl W. Sprinkel
Under Secretary of the Treasury for Monetary Affairs
before the
New York City Chapter of the
Financial Executives Institute

Wednesday, December 7, 1983

The economic recovery has now passed its first birthday and as time passes, the signs of progress in our recovery are becoming both clearer and stronger. The strong economic growth and low inflation we are now enjoying are in stark contrast to a few years ago -- when the problems of high inflation, stagnant economic activity and declining productivity seemed insurmountable.

We remember all too well that in 1980 inflation had soared to 12.4%, up from 5% at the end of 1976, and that interest rates had risen to record highs. So far this year, the inflation rate (GNP-deflator) has averaged 4.2%, which is the smallest increase since 1972 when price and wage controls were in effect. Interest rates have also fallen rapidly, although they remain higher than any of us would like; the prime rate has fallen from 21.5% to 11.0%, or 1050 basis points from when we came into office.

Industrial production has regained what it lost during the recession and in October surpassed its previous peak of July 1981. The increase of 1.2% for personal income in October is the largest rise in more than two years. Second quarter real GNP for this year was 9.7% and was the largest quarterly growth rate in over 5 years. Third quarter real GNP growth was also a very impressive 7.7%. The unemployment rate -- which peaked at 10.8% in December 1982 -- had nosedived to 8.4% by this November, its lowest level since November 1981. It is important to remember, however, that unemployment is still too high by anyone's standard and further declines remain a high priority of this Administration.

A few quarters of good economic news do not guarantee a sustainable economic expansion. Further, the recovery is -- as a recovery always is -- uneven, with some industries and regions enjoying a much healthier rebound than others. Continued, sustainable and noninflationary economic growth will require continued adherence to sound and disciplined monetary and fiscal policies; that means perseverance in our

efforts to reduce the budget deficit and moderate, stable money growth that facilitates the expansion without refueling inflationary pressures.

Lately, one cannot pick up a newspaper or magazine without reading numerous stories about what our fiscal and monetary policies are and, more importantly, where they are headed. On the fiscal side, numerous articles have been written about the Federal government's spending, taxing, and debt-financing policies. On the monetary side, we are bombarded with articles on weekly money supply numbers and nominal interest rates, forecasts of current and future inflation, speculation about future money growth rates and complaints about the level of real rates of interest.

It is unfortunate, but probably correct, to say that we often view fiscal and monetary policies as substitutes for one another. This is unfortunate because they each do very different things; there is no trade-off, particularly in the long run. It is therefore essential that we recognize the appropriate roles for fiscal and monetary policies when we are faced with as important an issue as the budget deficit. This Administration does not like large Federal deficits; however, it matters very much how we reduce the budget deficit.

Fiscal Policy

Reductions in both tax rates and the rate of government spending are two vital components of our Economic Recovery Program which must be implemented together if we are to ensure lasting economic growth. In fact, I would argue that it is when we view these two components of our fiscal program as separate issues that we run into serious problems.

The Economic Recovery Tax Act passed in 1981 had a very simple purpose -- to allow people to keep more of their hard-earned income. The purpose of the tax cuts was to provide increased incentives for individuals to work harder and save more and for businesses to expand and engage in capital investment. As tax cuts promote expansion in total employment, the economy grows faster. The tax cuts, in principle, were designed to promote the private sector over the government sector, by reducing the share of resources directly transferred from the private sector to the government.

Since 1970, the Federal government has operated under continual deficits. This is clearly an undesirable situation. However, we must be careful not to implement temporary "cures" which could serve to lower deficits in the short-term, but leave intact the underlying cause of deficit growth into the future. That is, we must attack the causes rather than the symptoms of the deficit problem.

The inescapable reason for deficit growth over time is an imbalance between expenditures and receipts. One simple way of determining which of these two components -- expenditures, receipts, or both -- is responsible for the deficit is to compare their growth, over time, to that of the whole economy. Federal spending, or taxation, expressed as a share of total GNP measures the size of the absorption of private resources by the government sector.

Since 1970, tax receipts as a percentage of GNP have remained in the relatively narrow range of 18.1% to 20.8%. Moreover, contrary to the usual story, the 1981 and 1982 tax cuts left the average tax rate in 1984 essentially the same as it was in 1980. The income and other tax cuts essentially were offset by higher Social Security and indirect taxes and income tax bracket creep. In other words, we cannot blame the 1981 and 1982 tax "cuts" for our large deficits.

Since 1970, expenditures as a percentage of GNP have grown from 20.2% to 24.6%, or an annual growth rate of 1.5%. Since 1979, the annual rate has been an explosive 3.5%. While this Administration has succeeded in recent years in slowing the rate of rise, we have not reversed the trend of rising spending as a share of GNP. This is evidenced by the fact that current spending as a share of GNP is higher, on average, under Reagan than it was under Carter -- and I do not state this with pride -24.2% and 22%, respectively.

Clearly, it is in the interests of big spenders to blame the deficit on undertaxation, rather than on their own spending habits. It is equally clear that a tax increase will not solve the deficit problem. In the past, tax increases have resulted in more, not less, government spending. A recent Treasury study shows that for every new dollar of taxes collected, spending rises by 70 cents. Thus, increasing taxes does not allow us to reduce the deficit dollar-for-dollar; mostly, additional taxes fuel more government spending.

Let's consider a more recent example of how Congress has attacked the problem of deficits. Just a few weeks ago, the Treasury had to request Congressional approval to issue more Treasury debt, to pay for spending already approved by Congress. On the same day and after approving additional funding for various programs, the emergency financing bill did not pass because of alleged concerns about the deficit. Having already authorized the spending, Congress "took a stand" on the deficit by delaying approval for Treasury to sell debt to pay the government's bills. You are all well aware of the uncertainty and confusion created in the financial markets as a result. As long as such examples of unrealistic political posturing and rhetoric persist, we have little hope of containing the habits of big spenders who are responsible for our deficits.

A fiscal policy that lacks discipline poses serious threats to our long-term ability to achieve a healthy and growing economy. Government spending is an absorption of resources from the private sector to the government sector. That absorption imposes a burden on the private sector and that burden exists regardless of whether the resources are acquired directly by taxation, by borrowing, or by the financing method of the 1970's -- the indirect tax of inflation. The nature and the incidence of that burden will vary depending on the method of financing the spending, but the burden remains regardless.

Therefore, to argue that tax increases must be the proper method of reducing deficits is not to face the real issue of the growing absorption of private resources by the government sector. To accept that we are undertaxed in our environment of unchanged tax rates is to accept the implication that continued spending growth is desirable. Any tax increase -- of whatever size -- is not likely permanently to solve the deficit problem; as long as spending as a share of GNP continues to grow, only ever-rising taxes will finance the government sector.

Monetary Policy

It is essential to distinguish between the short- and long-run effects of a chosen monetary policy. While accelerated money growth may boost economic activity in the short run, highly expansionary monetary policy does not provide real economic growth over the long run. Its immediate, positive effects on the economy make stimulative monetary policy a tempting and politically-appealing policy; but that stimulus is temporary and short-lived. Once the increased money growth generates inflation and inflationary expectations, continued rapid money growth retards real economic expansion as interest rates rise.

The other side of the coin -- rapid deceleration of money growth -- also poses serious threats to economic growth. While monetary discipline will decrease inflation and nominal interest rates in the long run, a sustained rapid deceleration of money growth that results in a prolonged period of monetary restriction will likely produce a similar swing in economic conditions in the short run.

The obvious question is: which policy do we choose -- rapid or sluggish money growth? The answer is: "Neither!" The key to economic stability must be one of stable and moderate money growth. I use the word "stable" to imply growth that follows a predictable pattern and reduces uncertainty about long-run monetary policy. Policy that is "moderate" means one that supports a growing economy, but is noninflationary, and therefore does not tax the holder of money by lowering its purchasing power.

There has long been a discussion about whether or not policy should be guided by the discretion of the policymaker or by preannounced rules of conduct. Those who argue for discretion assume that rigid conformance to rules is the recipe for disaster because of the many non-monetary shocks that can hit our economy. Successful discretionary policy, however, requires that the policymaker have enough information, not only to recognize shocks in a speedy fashion, but also to implement a successful offsetting policy in order to promote economic stability.

Those who argue for rules believe that discretionary actions can create more instability in the economy than would be present by a stable and preannounced rule of policy conduct. The premise of this view is the belief that no mortal man or immortal institution has the timely and accurate information needed successfully to formulate and implement discretionary policy. This belief is based, among other things, on the notorious inability of economists to forecast the timing and intensity of changes in economic activity; our complete inability to foresee many of the economic and political shocks that may beset the real economy; as well as the length and variability of the lags between the time when policy actions are taken and when their effects on the economy are felt. While in theory it may seem possible to use discretion to stabilize or "fine-tune" the economy, the practical problems associated with our incomplete knowledge and foresight imply that discretionary policies may induce greater instability in the economy than the shocks they are designed to offset.

In the past, policymakers have often attempted to tailor current policy actions to perceived current economic conditions. While this would appear to be a reasonable policy to follow, it neglects one very important fact: today's monetary actions exert effects not on today's economic conditions but, more importantly, on tomorrow's economic conditions. For example, the long-run relation between money growth and inflation works with a lag of 1-1/2 to 2 years. Therefore, if we wait until the signs of an accelerating inflation are upon us, it is already too late to counteract or prevent accelerating inflation. If we slam on the monetary brakes once we are confronted with accelerating inflation, an immediate turn-around of inflation will not be possible; inflation can only be cured by a long-run policy of monetary discipline. Moreover, we know all too well the painful short-run costs associated with a persistent deceleration of money growth: falling employment and sluggish or negative economic growth.

No one would deny the need for policymaking to be flexible, to be able to respond to fundamental institutional or economic changes. But flexibility does not preclude a long-run prescription for policy. Specification of the long-run goals of policy and articulation of the long-run implications of current policies are often lacking in both our monetary and fiscal policymaking processes.

In the current situation, the enormous uncertainty and speculation about monetary policy can be attributed primarily to the fact that the public has no assurance that the Fed is committed to a long-run policy of monetary discipline. That uncertainty is heightened by unpredictable, volatile money growth; that uncertainty adds a risk premium to the level of interest rates and helps to keep interest rates high, relative to current inflation rates. A policy of moderate and pre-announced stable money growth, in the context of a long-run commitment to noninflationary monetary policy, would reduce the speculation about future Fed policy and would reduce the perceived importance of short-run deviations from the long-term path of money growth.

Just as uncertainty about long-run monetary control can be heightened by erratic and unpredictable money growth, stable and within-target money growth can go a long way to assure the financial markets of our commitment to a policy of containing inflation over the long run. That assurance can hasten the downward adjustment of inflationary expectations and put downward pressure on interest rates, even as the economic recovery proceeds. That is the most important contribution that monetary policy can make to achieving a long-run sustainable recovery.

From August 1982 to last July, money growth accelerated to a 14% rate. At the time, the effects on the monetary aggregates of financial innovation created considerable uncertainty as to the meaning of that acceleration. While the acceleration of money growth contributed, quite predictably, to the rapid rate of economic expansion we are now enjoying, the decision to accelerate money growth, like all such discretionary policy decisions, had economic risks associated with it. One risk associated with that policy -- and one of which the financial markets are acutely aware -- is the inflationary implications of such a rapid rate of monetary expansion. The explosive money growth of 14%, had it been allowed to continue, would have led to significantly higher future inflation.

To maintain an anti-inflationary stance over the long run, a deceleration of money growth was imperative. That deceleration of money growth also has economic risks associated with it. Since July, there has been a substantial slowing in money growth, which is desirable to contain inflation over the long run. Such a deceleration must be achieved with great caution, however, because a protracted period of monetary restraint is likely to induce a similar slowdown in the economic expansion. We would not now face the risk associated with a monetary slowdown, if the enormous acceleration of money growth in late 1982-early 1983 had been more moderate. A policy of stable and moderate money growth minimizes the economic risks associated with monetary policy. Since we do not live in a certain world, those risks can never be eliminated; it is, however, the job of policymakers to pursue policies that minimize the associated dangers to economic performance.

Conclusion

In the past, conventional wisdom was that we could fine-tune expansionary government spending and monetary policies to stimulate the economy. However, because fiscal and monetary policies are designed to solve very different problems, we should not view them as substitutes. In the long run, the sole function of monetary policy is to provide price stability. The purpose of fiscal policy is primarily to reallocate resources between the private and government sectors. Wise fiscal policy requires that spending be contained to the essentials: provision of law and order, national defense, public goods, and essential income maintenance programs. Wise fiscal policy also requires that spending be financed by a tax system that minimizes the disincentives to work and save.

No trade-off exists between fiscal and monetary policies. To argue that a trade-off exists is to argue that we can trade off improved discipline in one policy for less discipline in the other. This is nonsense and is a sure road to disaster.

Fiscal discipline is required to stop the growing absorption of private resources by the government sector which jeopardizes our ability to achieve long-term and stable economic growth. The simple fact is that the government is spending too much money. As I have argued, tax increases do not promote fiscal discipline. In another sense, a return to discipline on spending will also serve to reduce the temptation to monetize deficits.

It is for these reasons that the Administration stands firm against the pressure by Congress to repeal the indexation of the income tax system that takes effect in 1985. Also, as recently proposed by Secretary Regan, we should consider granting the President line-item control so he could eliminate parts of appropriation bills that are inconsistent with his overall economic goals.

Monetary discipline is a prerequisite for low interest rates and a noninflationary environment of stable and lasting economic growth. By consistently achieving monetary targets, policymakers can signal to the markets that they are committed to providing a long-term environment of price and interest rate stability in which long-term commitments can confidently be made at relatively low interest rates.

The achievement of targets may be simply viewed as a policy that operates under a consistent rule, or code of conduct, that does not require financial markets to continually revise their expectations for the future course of monetary policy, inflation, interest rates and economic growth. That achievement can hasten the downward adjustment of inflationary expectations and faciliate lower interest rates. This is the single most important contribution that monetary policy can make to achieving a long-run

sustainable expansion. With the financial market uncertainty that is now being generated by concerns about projected budget deficits and potential monetization, the importance of achieving a predictable, preannounced noninflationary monetary policy cannot be overstated.

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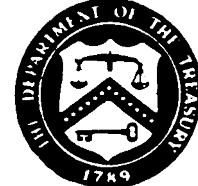
TREASURY NEWS



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STATEMENT BY GEORGE R. HOGUET
PRINCIPAL DEPUTY ASSISTANT SECRETARY
OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
COUNCIL OF THE AMERICAS

December 8, 1983

Latin America's Debt -- The Reagan Administration's Approach

I am delighted to be here today. In my remarks this morning, I would like to focus on the Administration's response to debt problems in Latin America with specific reference to Brazil, Argentina, and Mexico. I would also like to discuss briefly possible patterns of international financial flows to the region once the current period is over.

Overview

The debt problems of LDCs are largely concentrated in Latin America. Of the roughly $600 billion in external debt owed by non-OPEC LDCs at year-end 1982, Latin American borrowers accounted for $300 billion, or about half of the total. The external debt of Argentina, Brazil, and Mexico together totals more than $200 billion representing two-thirds of Latin America's external debt. In 1983, in each of these countries, interest payments alone on external debt will equal roughly 50 percent of export earnings.

Latin America's debt is large both in absolute terms and in relation to its exports. Given the accumulated stock of debt, it is probable that a reduction of debt service ratios to more normal levels will be a multi-year process. There is no reason for complacency. At the same time we should recognize that there are few quick fixes. In particular, the adoption of policies by debtors which would lead to economic autarchy appears contrary to their long-term self-interests and is therefore unlikely.

A successful approach to current problems must deal with underlying causes, promote adjustment, and focus on the efficient use of resources. It must also take into account the very substantial differences between each country's economic and financial circumstances; a case-by-case approach is the only realistic one in light of the number of variables involved in each situation.

For the region as a whole, real GDP dropped in 1983 for the third year in a row. The decline in economic activity is obviously engendering social strains, and the political economy of adjustment -- as witnessed by the recent wage law vote in Brazil -- is complex. But we need to ask the question whether these strains could be avoided for an extended -- or even a brief -- period by refusing to implement a comprehensive adjustment program. Simply put, what are the alternatives to adjustment? In my view, there are, ultimately, none and the payments difficulties we are witnessing now culminate a decade of delayed adjustment.

We should not underestimate the capacity for external adjustment of Latin American borrowers. Thus for the continent as a whole, its trade balance is projected to rise from a $2 billion deficit in 1981 to $23 billion surplus in 1983. Mexico's trade balance in the same period is projected to swing from a $3 billion deficit to a $13 billion surplus; Argentina's merchandise trade balance will rise to $3.5 billion in 1933 from a $200 million deficit in 1981; and Brazil's trade surplus is expected to surpass $9 billion in 1984. There is clear evidence that the potential exists to reduce current account deficits dramatically (through the generation of trade surpluses).

Adjustment on the internal front, including reduction of budget deficits, control of parastatals, and price stabilization is proving to be more difficult. Price liberalization and other measures in the short term undoubtedly exacerbate inflationary pressures. It is imperative, however, that distortions be removed. Further, with natural preoccupation with the current severe economic conditions in Latin America it is easy to forget how dynamic the region's economies are. The average annual real rate of growth in Latin America in the 1970s was 6 percent.

The focus of the adjustment efforts should be to restore the conditions for sustainable growth and to reestablish external creditworthiness. In this context, it may be useful to touch very briefly on the origins of the current problems.

Causes of the Crisis

There are a number of underlying causes of the debt problems which emerged in 1982 in Latin America including both exogenous factors in the previous decade, as well as domestic economic policies. More recently, the sharp reduction in the rate of new commercial bank lending has significantly complicated matters. There have been many good analyses of the several contributing factors. I would like to highlight just three.

The first area is exchange rate policy. It is calculated that between 1970 and 1980 for Latin America on the whole, the real exchange rate relative to the dollar appreciated by 24 percent. This phenomenon contributed greatly to lack of export competitiveness, the stifling of non-traditional industries and exports, and high levels of imports.

A somewhat related issue is the problem of capital flight. In the period 1980-1982 the amount of flight capital leaving Mexico, Brazil, and Argentina is estimated at roughly $30 billion. This is a large number by any standard. It may be some time before the bulk of this capital returns, but the magnitude of this outflow does stress the need for more realistic interest rates and other measures to induce greater domestic investment.

A third factor is excessive reliance on foreign savings and a clearly unsustainable build-up in foreign debt. In 1975 - 1981, for example, Latin external debt increased at an annual compound rate of 23 percent in nominal terms. During this period, international inflation was roughly 7.5 percent per annum.

External debt grew substantially towards the end of the decade. For example, Mexico's external debt grew by a staggering 50 percent in 1981, and Argentina's grew on average 45 percent per annum between 1977 and 1980. Brazil's net use of foreign savings rose from 2.2 percent of GDP in 1977 to 5.2 percent in 1980. As maturities shortened, the weighted average life of the debt was reduced; inflation pushed up interest rates and further accelerated effective amortization patterns on variable rate debt.

In the remainder of the decade there clearly will have to be a major strengthening of domestic public finance systems. There are positive signs in this area. Authorities in Brazil, Mexico, and Argentina have all indicated their desire to strengthen revenue collection and to control expenditures.

In Brazil, for example, in the first 7 months of 1983, income tax revenues have expanded at a real rate of 29 percent over revenues earned in a comparable period in 1982. In Mexico, the public sector deficit has dropped from 18 to 8.5 percent of GDP. In Argentina, the new government has indicated its intention to reduce spending, including military spending.

USG Interests

Our interest in an orderly resolution of these problems stems not only from our economic interests, including the efficient functioning of the world monetary system, but also our political and strategic interests. The situation requires the active and constructive collaboration of all major participants in the international monetary system. Crises must and are being managed.

The major debtors, however, recognize that they play the primary role and that the best prospects for renewed growth lie in domestic adjustment which will set the stage for the restoration of access to credit markets. In this context, our approach stresses official finance as a catalyst rather than as a substitute for private finance. As well there are always difficult trade-offs between adjustment and financing.

The U.S. economic stakes are clearly important. To begin with, our largest 24 commercial banks hold roughly $45 billion in combined claims on Argentina, Brazil, and Mexico. In addition, U.S. firms have a sizable direct investment in these three countries, with Brazil being the leader by a wide margin. U.S. direct investment totals $9 billion in Brazil, $6 billion in Mexico, and $3 billion in Argentina.

While U.S. exports to Latin America in 1981 accounted for only 17 percent of total U.S. exports, between 1978 and 1981 these exports grew over 50 percent faster than exports to the rest of the world. Mexico is our third largest trading partner and accounted for <u>half</u> of all U.S. exports to Latin America in 1981. U.S. exports to Mexico fell by a third in 1982, or roughly $5.5 billion, and have declined further this year.

In all, U.S. exports to Latin American countries are projected to fall in 1983 40 percent below the level reached in 1981. At least 250,000 jobs have been lost because of this sharp decline. A few points should, however, be emphasized. First, while this decline has been rapid, it is important to recognize that Latin American import levels should be compared against a base that is sustainable, i.e., consistent with the debt service capacity of the economy and representative of a willing long-term transfer of resources from overseas creditors. Second there is evidence suggesting that in some countries, at least, the decline has bottomed out. Thus, U.S. exports to Mexico are expected to rise modestly in 1984. And Brazil's non-oil imports are expected to grow by 18 percent in 1984, including a 24 percent increase in private sector imports.

<u>Response to the Debt Crises</u>

The Administration continues to pursue a 5-point strategy with regard to international debt problems. This approach was endorsed by the heads of state at the Williamsburg Summit and provides the framework for international cooperation among creditor countries.

1. The first element of the program involves credible adjustment by the debtor countries themselves. This adjustment is a <u>sine qua non</u> both in terms of the reestablishment of a viable external payments position and in terms of regaining access to external credit markets. Broadly speaking, through IMF programs, the adjustment takes the form of a reduction in aggregate demand, the promotion of supply, and the realignment of relative prices.

Specific policy prescriptions include: the reduction of fiscal and current account deficits, monetary restraint, price liberalization, the restoration of incentives, the elimination of subsidies and other distortions, more flexible exchange rate policies, the elimination of arrears, and a net increase in reserves. The objective is also to place adjustment on a more continuous basis so that sharp disruptions can be avoided.

An important concomitant of macroadjustment should be microadjustment, including the rationalization of public investment plans and the placing of firm finances on a sound footing. In many countries, investment plans are -- appropriately -- being cut back. But there still exists substantial scope for improvement in policies which will enhance the position of individual firms. For example, I note from a recent Council of the Americas report that price controls are among the chief complaints of U.S. MNCs doing business in Latin America. According to a World Bank study, price distortions alone in the 1970s reduced LDC growth by as much as 2 percent per annum.

2. The second element is readiness to provide multilateral official financing on a transitional basis, principally through the IMF, to promote orderly adjustment. With the recent approval of the Fund quota increase, the Fund has the resources to meet anticipated demands. And international confidence has been strengthened.

There has been much criticism recently of Fund stand-by arrangements on the grounds that performance criteria are excessively rigid or too ambitious in terms of the adjustment required. There have been cases of missed targets and no doubt there will be periodic noncompliance in individual cases, particularly in light of unforeseen events. Brazil, for example, where inflation is now running at 160 percent on an annual basis, provides a good example of feedback effects in an indexed economy.

But I would like to emphasize that Fund arrangements, in addition to encouraging bank lending, promote economic growth and an increase in imports -- generally in a fairly short time frame. Further, in the months ahead, it is likely that the Fund will pay increasing attention to trade restrictions, and trade and investment barriers. The Fund is a key catalyst in terms of promoting policy improvements and creating the conditions for incremental credit flows.

3. The third element is the will and capacity of the creditor countries to act in potential emergencies. This may involve, on a selective basis where necessary, the provision of temporary official bridge financing for borrowers who are determined to adjust. It is recognized that the negotiation of an IMF arrangement and an orderly financing plan takes time; in some cases, bridge financing may be required. The cooperation between the B.I.S. and other monetary authorities to date is encouraging.

Official and private rescheduling plus new money from the banks, and, where appropriate on a selective basis, official export credit and commodity financing provides one mechanism for cushioning adjustment efforts. Eximbank has generally remained open for business in Latin America, except for those countries in which the Bank is experiencing significant arrearages.

4. The fourth element of our strategy involves continued commercial bank lending for borrowers making determined adjustment efforts. Commercial banks hold two-thirds of the external debt of the major debtors in Latin America. Latin America's future growth will depend on the quality and pace of its adjustment effort and its ability to import. It is imperative that commercial banks and other nonofficial creditors share in the burden, maintaining exposure in countries that are making major adjustment efforts in connection with IMF programs, and increasing exposure where this is justified. Gross flows need not grow at anything like the pace of the latter half of the 1970s.

Commercial banks by and large have shown a willingness to reschedule and, where appropriate, to put in new money, generally 7 to 11 percent of existing exposure. The recent package put together for Brazil is a good example. The $6.5 billion Euro-credit was the largest for a sovereign borrower.

5. The final element in our strategy is the resumption of sustainable growth in the industrial world. It is anticipated that the U.S. economy will grow at about 6 1/2 percent this year and 4 1/2 percent in 1984 (fourth quarter over fourth quarter); OECD growth is likely to be well above 2 percent in 1983 and close 4 percent in 1984 on a year-over-year basis. The U.S. will run a $100 billion trade deficit in 1984 providing a powerful stimulus to world growth.

Commodity prices recently have regained about half of the nearly 30 percent decline from 1980 to late 1982. Continued world recovery should lead to further increases in commodity prices as well as volumes. U.S. economic growth has also spurred a $1.5 billion increase in U.S. imports from the six major Latin debtors.

To put matters in perspective, if growth in the industrial countries increases by 1 percent, the impact on non-OPEC LDC current accounts through higher export receipts is equal to a decline in LIBOR of at least 2 percent. And of course LIBOR interest rates have declined from an average 16.1 percent in 1981 to 10 percent this year. U.S. real growth is taking place in an environment of very low inflation. Lower inflation and the resumption of sustained growth in the United States is a major contribution the United States can make to Latin debt problems.

Trade/Finance Link

The United States has also been at the forefront of efforts to improve international understanding of the close linkage between trade and finance policies in overcoming the debt problems that may exist. The linkages are simple and self-evident, but policymakers should keep them in mind in making trade and financial policy decisions. Briefly, these linkages are:

(1) LDCs must have access to industrial nations' markets in order to earn the foreign exchange to service their debts.

(2) There must be adequate finance to permit export sales to occur and to avoid drastic cuts in essential imports or in those needed for the export sector; in short, to permit the trading system to continue to work.

In general, the industrial nations' markets are actually quite open to exports from the high-debt countries. Tariffs are also very low. Average U.S. tariffs, for example, on imports from Brazil were 10.8 percent in 1982; 2.9 percent for imports from Mexico; and 2.4 percent on imports from Argentina.

The United States and other countries do, however, maintain quantitative and other restrictions on textiles and several agricultural imports from these countries. We calculate a doubling of exports of restricted products to the major industrial markets (U.S., EC, and Japan) would have a relatively modest impact on debt service ratios in the short term, but trade liberalization should be at the forefront of our minds in addressing these problems.

Further, in the longer term, liberalization of imports is critical to the structure of LDC exports and to investor and creditor confidence in the debtor countries. We have therefore emphasized the need to resist any new import restrictions against LDCs and have pressed for a new round of trade negotiations. We have also urged LDCs to rationalize their own import regimes.

The Supply of Capital in the Future

These measures notwithstanding, a question arises as to where the incremental financing for Latin America will come from for the rest of this decade. To begin with, we should view *ex ante* financing gaps with some circumspection; official finance can play only a residual and catalytic role.

Direct investment flows to Latin America fell sharply as a percentage of the total in the period 1974 - 1980 and are an obvious candidate for incremental financing. For example, equity capital in the oil and gas business, to cite one sector that absorbed substantial debt in the 1970s, is highly responsive to contract terms.

The equity affiliates of the World Bank and I.D.B. can also assist. IFC has shown an ability to leverage its resources 7:1 and in the current period has been completing a number of financings in Latin America. The Administration also hopes that the newly created Inter-American Investment Corporation will follow IFC's tradition of mobilizing private resources for development in Latin America.

The World Bank recently published a series of studies on a Multilateral Investment Insurance Agency and discussion of various proposals is expected in the near future at the Executive Board.

The discussions no doubt will be protracted, but should provide one indication of whether the reality -- as opposed to the atmospherics -- of direct investment has changed.

The World Bank and the Inter-American Development Bank have also been assisting in the current period through expanded program lending and export promotion lending. They are -- and should remain -- principally project lenders. The focus should be on highly conditional lending and qualitative improvements. This might include for example, assisting in rationalizing investment plans, strengthening institutions and complimenting IMF efforts.

Through the cofinancing process, they can also assist in improving the quality of international credit which obviously declined in the 1970s. Not every cofinancing mechanism put forward by the MDBs will be successful; but the marriage of the analytical skills of the MDBs and the funding access of the commercial banks should be pursued.

There is also a clear need for more innovative corporate financing techniques, be it debt/equity swaps, variable maturity loans, financings with equity kickers, or the use of futures to reduce interest rate volatility.

Conclusion

Latin American debt problems are far from over and reduction of debt service burdens will be a multi-year process. The major debtors have the capacity to adjust and recognize the importance of restoring international creditworthiness. The key to the problem lies in continued rapid adjustment, renewed access to credit markets, world growth, resistance of protectionist pressure, and the generation of trade surpluses by debtor countries.

Mexico has provided a striking example of reduction in current account deficits. Major measures have been taken in Brazil. And in Argentina, economic stabilization is a top priority.

Inevitably, there will be compromises in the months ahead and periodic arrearages. In addition, creditor banks may decide to set aside some reserves against potential losses in order to insulate themselves from the particular problems of specific borrowers in various countries.

But the debt problems have clearly entered a new phase. The mechanisms are in place to deal with the issues, which will require continued vigilance. With continued growth in the world economy, the problem is manageable and being managed.

TREASURY NEWS

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

REMARKS BY
JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
TAX FOUNDATION
NEW YORK CITY
NOVEMBER 30, 1983

I am pleased to join your program today to discuss where tax policy might be headed in the next several years. This is a challenging time; some have come to believe that major changes to the tax system could lie ahead.

The long-term outlook is a function of how well the present tax system works, or, more importantly, is perceived to work, and whether we are raising sufficient revenue to fund the size of the Federal Government we as a people desire. As we consider how well the present system works, we should keep in mind that concern over future deficits will subject the tax system to close scrutiny for several years to come. And recent experience shows that there is little reluctance on the part of policymakers to make frequent changes in the tax system, whether in the name of revenue raising, loophole closing, or "tightening" the system.

Tax changes proposed by this Administration and adopted by the Congress have contributed to economic recovery, helping to promote the goal of a solid rate of growth with low inflation.

Disincentives to work, savings, and investment have been reduced significantly. The across-the-board reductions in marginal tax rates enacted in the Economic Recovery Tax Act of 1981 were designed to reverse the substantial increases in the tax burden that high rates of inflation had brought about. And, beginning in 1985, indexation of the rate brackets and the personal exemption will insure that we can no longer finance higher levels of government spending through automatic tax increases resulting from inflation.

R-2449

The 1981 Act contained other significant measures to encourage the growth of long-term saving and business investment. The importance of expanded IRA and Keogh deductions will continue to increase, and the accelerated cost recovery system will provide a direct and important stimulus to business investment that will contribute significantly to the long-term strength of the recovery.

But Federal spending continues to outpace receipts. Total receipts for 1984, as a percent of GNP, will be roughly comparable to those during the early 1970's, just under 19 percent of GNP. Yet total outlays as a percent of GNP are up markedly from this same period. In the early 1970's outlays were around 20 percent of GNP. In 1984 they will exceed 24 percent.

Where spending substantially outpaces revenue, large budget deficits result. In the short run, as the economy recovers, we can tolerate large budget deficits. But in the long run they are unacceptable. The deficit problem will diminish with the increased vigor in the economy we are now enjoying, but it will not disappear. It will have to be attacked by legislative action in the form of spending reductions or a combination of reduced spending and tax increases.

The Administration recognizes that increased revenues may be necessary as insurance that future deficits remain within a tolerable range. Thus the President proposed a contingency tax plan as part of his Fiscal 1984 Budget.

This plan was designed to raise revenues -- consequently reducing the deficit -- by about 1 percent of GNP, provided Congress adopted certain spending reductions, and insufficient economic growth occurred to keep the deficits forecast for fiscal 1986 below 2-1/2 percent of GNP.

The plan was designed to have a broad, temporary impact on all taxpayers and all segments of the economy. More important, it would not permanently affect the structural tax changes enacted by ERTA in 1981.

This plan was initially received by Congress with an almost universal lack of enthusiasm. Indeed, I was credited with declaring it dead over the summer. However, to paraphase Mark Twain, reports of its death were greatly exaggerated. In my view the idea of tax increases contingent upon spending reductions remains very much alive. We need only consider the sincere effort in the Senate Finance Committee during the closing weeks of the first session of this Congress.

Without Administration support, which undoubtedly would hinge on significant reductions in spending, Congress is not likely to

enact a major revenue initiative in 1984. And the Congressional will to enact meaningful spending reductions is very much in doubt. Thus the enactment of significant tax increases in 1984 is unlikely.

This means discussions of revenue increases will continue in 1985. They will be expanded, however, to cover the structure of, as well as the amount of revenue raised by, the Federal tax system.

One writer recently suggested that the tax system has reached its political and economic limits. More people are questioning whether our present tax code is raising needed revenue efficiently, fairly, and without unduly burdening capital formation, saving and investment. These are the kinds of inquiries which raise the specter of fundamental tax reform.

The growing taxpayer dissatisfaction with the present system is no secret. Even with the dramatic reductions in marginal tax rates enacted in 1981, taxpayers remain convinced that their neighbors who are just as well off pay less tax than they do, and that taxpayers who are wealthier than they pay fewer taxes still.

Many of the provisions in the current tax law were enacted to promote worthwhile social and economic goals. As a result, however, we have a system where individuals or families of equal means may pay quite different amounts of tax, depending on how they earn or use their incomes. Also, taxpayers in unequal economic circumstances may pay the same amount of tax despite the apparent progressivity provided by a structure of marginal tax rates presently ranging from 11 to 50 percent. In addition, different types of investments still are taxed at widely differing effective tax rates, even after the 1981 structural improvements. Taking into account the corporate tax, marginal rates on some investment income can range from 11 percent to 73 percent.

The current tax system also fosters excessive planning and sophisticated rearranging of business affairs primarily for tax purposes. This increases taxpayer uncertainty, and causes disrespect for the tax laws, resulting in reduced voluntary compliance by taxpayers.

One response has been the enactment of various provisions aimed at improving taxpayer compliance. The 1982 Tax Equity and Fiscal Responsibility Act included major improvements in penalties and information reporting, including the new concept of a substantial understatement penalty to increase the risk of playing the audit lottery.

But increased penalties and improved information reporting can only go so far. An increasing number of taxpayers want far simpler rules with more uniform taxation and lower rates.

As people talk increasingly of fundamental tax reform, we must look carefully at what is really involved. As is usually the case with a complex subject that people wish to be simple, a great deal more is involved than most people generally suspect.

Approaches to Fundamental Tax Reform

Two elements, sharply progressive tax rates and the lack of uniform treatment of income in the tax base, are distinct characteristics of our present income tax. Let's talk first about tax rates. We have all heard the suggestion that we move to a flat tax--that is, to a single rate of tax.

A single tax rate could be applied to our current tax base, leaving intact all of the current exclusions, deductions and credits, along with the current exemption for the taxpayer and his dependents. A single rate of about 19 percent applied to the present individual income tax base would raise the same amount of revenue as will be raised by the 1984 rate schedule now in the Code.

This obviously would mean a tax decrease for taxpayers now paying an effective rate higher than 19 percent, but a tax increase for those whose average rate is below 19 percent.

But if the top individual tax rate were substantially reduced, retaining the present 46 percent rate on corporations would create too great a disparity between individuals and corporations. On further examination we would find that a single corporate rate of about 20 percent, together with a single individual rate of 20 percent, would produce the same total revenue as our present individual and corporate tax system, with no expansion of either the corporate or the individual tax base.

Collapsing the tax rates in this manner, without broadening the base to make it more uniform, would simplify the tax somewhat and would eliminate the disincentive of high marginal rates. At the same time, however, any single-rate tax would, as I have indicated, result in a major redistribution of the tax burden from high-income to low- and middle-income families.

Such a redistribution of the tax burden would, in my view, be unwise and unacceptable. At the very least it is counterproductive to raise the specter of a major shift in the tax burden, which basically involves a value judgement about where the tax burden should fall across income

classes, when fundamental reform to improve the fairness and efficiency of the system is being considered. Analysis instead should be focused on the tax base, which can be the subject of much more meaningful and productive evaluation. This does not mean, however, that lower tax rates across the board should not be sought, or could not be achieved.

Turning to the tax base, most so-called flat tax proposals, or modified flat tax proposals, call for a uniform tax system designed to treat taxpayers consistently according to a well-defined tax base, with no narrow exceptions. These broad-based tax proposals can be divided into two types. The first is a comprehensive income tax, where the tax base would include the taxpayer's consumption plus his or her increase in wealth. This means all of the taxpayer's economic income would be taxed. The second type of broad-based tax system is a consumption tax, under which annual changes in wealth are excluded from the tax base; this means that only amounts the taxpayer spends on consumption would be taxed.

Under either approach the existing tax base would be expanded by including in the tax base certain items not now subject to tax and by eliminating or restricting certain deductions or credits allowed under current law.

Effects of Restructuring

The objectives of most tax reform plans are similar -- reducing economic distortions caused by taxes and improving equity and compliance by broadening the tax base and lowering tax rates. However, various schemes have quite different effects on savings incentives, the uniformity of treatment among different activities, and the distribution of the tax burden.

Since a given amount of tax revenue can be raised in any number of ways, the tax system should be designed to minimize its adverse effects on the economy. Businesses and households should be allowed to make the best use of the resources at their disposal with minimum intrusion from tax considerations. This would lead to an economy that operates more efficiently, thereby raising productivity, economic growth, and the standard of living for all Americans.

Taxes reduce the efficiency of the private sector because they interfere with the price signals of the market. Resources that ould have been traded in the absence of taxation either will not be put to a productive use or will be shifted to a lower taxed but less productive use.

Any realistic tax system unavoidably distorts some market signals

and thereby distorts decisions on how much to work, when and what to consume, when and how to save, and how much to invest and in what types of capital. Even a completely uniform income tax would affect individual choices between work and leisure, and between consuming now or saving for future consumption.

An income tax discourages saving by reducing the rate of return to the saver below the market return from investing in capital. This diminishes the reward for deferring consumption; that is, it reduces the reward for saving.

A tax on all consumed income, on the other hand, would not discourage saving. Since saving would be exempted from the tax base, all consumption would be taxed only when it occurs, whether financed from current earnings or from accumulated savings. Thus a tax on consumed income would not, as is often thought, be biased against consumption; it would be neutral between savings and current consumption.

Compared to an income tax, a tax on consumed income would probably result in a higher saving rate, leading to increased capital formation, a higher growth rate in the short run, and a permanently higher level of output in the long run.

The Broad-Based Income Tax

A broad-based income tax would be designed, to the extent administratively feasible, to subject all items of household income to tax. This would require a correct measurement of the annual income of all households. The following issues would need to be confronted in determining the base of an income tax:

> Correct Measurement of Business Income. Under a truly uniform income tax, it would be necessary to measure correctly annual changes in wealth. In the case of business income (both for corporations and unincorporated enterprises), this would require depreciation rules under which the cost of assets used in business is recovered as the value of the asset declines. As a theoretical matter, this would necessitate that ACRS be replaced by a more complex set of rules under which the allowable capital recovery periods (for tax purposes) match closely the useful economic lives of assets. Note that since ACRS approximates expensing for many assets, depreciation rules based on the economic lives of assets would represent a substantial increase in the taxation of much income from capital.
>
> Corporate Integration. Under an income tax concept, all income accumulated within corporations would be

properly attributable to owners of corporations. Theoretically, this would require that the separate corporate tax be eliminated and that all corporate income be allocated among shareholders. As a practical matter, allocation of corporate retained earnings may not be administratively feasible.

Indexing Basis of Capital Assets. Under current law, both real income from capital and real interest costs are overstated because no account is taken of the effect of price level changes on real purchasing power. Ideally, under an income tax, the basis of assets would be adjusted for price level changes in determining taxable income from sales of assets, redemption of bonds, and repayment of loans in determining allowable depreciation deductions. In practice, basis adjustment for inflation might be regarded as too complicated.

More Inclusive Taxation of Fringe Benefits. A comprehensive income base would include non-cash forms of compensation currently either exempt from tax by statute or in practice not subject to tax. Examples would include employer contributions to medical insurance and income accumulated within pension funds, as well as forms of compensation not specifically exempt by law, but not currently taxed, such as the value of employer-provided parking, and the value of entertainment and some business meals. The practical constraints are obvious.

Limits on Personal Deductions. Under a comprehensive income tax, personal deductions not necessary for the measurement of income might be disallowed. This principle might eliminate deductions for medical expenses, child care costs, state and local taxes, charitable contributions, and interest incurred to finance holdings of consumer goods, including personal residences. Exceptions for specific expenditures--charitable contributions come readily to mind--could of course be readily provided, but to do so would depart from the general income measurement principle. On the other hand, employee business expenses and interest incurred to finance holdings of income-earning assets would continue to be deductible.

One income tax proposal designed as a fundamental reform of the system has been introduced by Senator Bradley and Representative Gephardt. Their proposal includes three tax rates (ranging from 14 percent to 30 percent) and is designed to preserve the existing distribution of the tax burden among income groups. While it would broaden the tax base compared to current law,

the Bradley-Gephardt proposal allows:

- Continuation of a separate coporate tax at a 30 percent rate, with no relief for double taxation of dividends.
- Taxation of capital gains at ordinary income rates, but with no basis adjustment for inflation or for previously taxed corporate retained earnings.
- A set of depreciation rules that make tax depreciation more closely reflect economic depreciation, but with no basis adjustment for inflation.
- Continued exemption of income accumulated within pension plans, including IRAs and Keogh Plans.
- Elimination of many exclusions from income allowed under present law, but continued exclusion from tax for veterans benefits, social security benefits for low and moderate income persons, and interest on public purpose state and local bonds.
- Elimination of many personal deductions and credits, but continued deductions at a 14 percent rate for home mortgage interest on principal residences, charitable contributions, state and local income and real property taxes, some medical expenses, and a continued full deduction for contributions to IRA and Keogh plans.

The reasons such "imperfections" have crept back into the Bradley-Gephardt plan are obvious. Equally obvious would be the demand for additional "imperfections" if this proposal were to run the legislative gauntlet. More importantly, the Bradley-Gephardt proposal does not adjust sufficiently for the higher tax on capital income it would impose.

<u>A Consumed Income Tax</u>

Let's look briefly at a tax on consumed income--a system that would tax economic income but would exclude net savings from the tax base. Simply put, that means amounts saved during the year, less amounts borrowed, would be allowed as a deduction.

A tax on consumed income would not represent as radical a departure from current law as it might seem. In many ways, the current rules applying to saving are much closer to those required under a tax on consumed income than to rules necessary under a uniform income tax. In particular, two important sources of saving for many families--homeownership and retirement saving--are taxed almost the same way under current law as they would be taxed under a consumed income tax with a deduction for saving.

The tax on consumed income would be similar in many ways to the uniform income tax and would involve many of the same base-broadening steps, as compared with current law, and thus would raise many of the same practical and political problems.

Under the consumed income tax, the taxpayer would include in his or her tax base all forms of current monetary income, the current consumption value of all fringe benefits supplied by employers, and the proceeds of all borrowing in excess of loan repayments. The taxpayer would be allowed to deduct from the tax base all purchases, in excess of sales, of income-earning assets, and all deposits, in excess of withdrawals, in interest-bearing accounts. Accrued interest, earnings from ownership of corporate shares, increases in the value of pension and life insurance reserves, and other increases in the value of asset holdings would not be subject to tax until paid out or withdrawn for consumption.

Because only individuals consume, there would be no need for a separate corporate tax nor any need to integrate personal and corporate earnings. Taxable income of an individual would include distributions from corporations and individuals' sales of corporate shares. In effect, corporate income would be taxed when it found its way into individual consumption. If thought desirable for political or other reasons, however, a corporate level tax could be imposed under this type of system.

A tax on consumed income also would be much simpler than an income tax. The main simplification advantage arises because a tax on consumed income avoids many of the severe problems in measuring the tax base that are encountered under a uniform tax on all income. By taxing income only when consumed, rather than when earned, there would be no need to account for changes in the value of assets between two different tax years. Thus, there would be no need for complex rules for depreciation accounting, no need to adjust the measurement of capital income for inflation, and no need for complex rules to allocate corporate retained earnings among shareholders. In addition, the need for a distinction between capital gains and ordinary income would disappear. Investments would be fully deductible, with sales proceeds fully taxable to the extent they were not reinvested. The simplification such a change would permit is obvious; the important point is that eradication of the distinction between capital gains and ordinary income in this context would not be at the expense of capital formation.

By and large, a uniform tax based on consumed income has considerable appeal as a model for tax reform. It would allow for important simplifications in the taxation of the return to savings and would remove the disincentive to saving present under both current law and a uniform income tax. A tax on consumed income could be designed to preserve the present spread

of the tax burden across income groups. It must be recognized, however, that such a system would necessarily raise serious policy and political questions concerning the extent to which wealth should be accumulated free of tax. It also would require higher tax rates to raise the same revenue than would a uniform income tax (because total consumption in the economy is less than total income), even though the tax rates could be lower than current law tax rates.

The process of moving to an annual tax on consumption would raise a number of difficult questions about what the tax base should look like during the transition period that would not be presented in moving to a broad-based income tax. Two basic questions concern the treatment of old wealth and old debt.

Changing to a tax on consumption would raise the serious question of how to deal with wealth accumulated prior to the effective date of the tax. In the absence of some type of transition rule, a consumed-income tax would fully tax the proceeds of such "old wealth" as they are consumed. A taxpayer who could have consumed capital tax free under an income tax would face a new tax as he or she consumes savings, even where the capital previously had been accumulated with after-tax dollars. This taxpayer would pay more tax than would have been paid had he or she been subject to either an income tax or a consumption tax for his or her entire life.

The exact opposite question is presented by debt which existed prior to the new tax system. Without a transition rule, a tax on consumed income would provide a windfall in the form of a deduction for all payments of principal on debt existing prior to adoption of the new system. Homeowners and consumer borrowers primarily would be affected.

Outlook for Change

In conclusion, I think this discussion will cause you to agree with the pundit who recently wrote "it is a political axiom that reform looks best at a distance . . . up close, attractions fade and obstacles appear." If we consider fundamental tax reform, we must make certain that all the relevant questions have been raised and are answered to our satisfaction. We may find that the effort required to achieve a major tax overhaul is not worth the candle. Nevertheless, given the dissatisfaction we all feel from time to time with our present system, the inquiry is essential.

Moreover, it is very helpful for tax policymakers to have in mind the type of system they think best. Even if it is not possible to move to such a system in the near term, it is wise to evaluate proposed changes in the present Code against such a desired system.

I appreciate your kind attention. Thank you.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 9, 1983

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447-0917

BEP ANNOUNCES HOLIDAY SHUTDOWN

The Bureau of Engraving and Printing (BEP) will be closed for the Christmas holiday season from December 24, 1983 until regular business hours on January 3, 1984, announced Robert J. Leuver, Bureau Director.

All Bureau public services including the tour and Visitors' Center will be closed from 11:30 A.M. on December 23 until 8:00 A.M. on January 3. Security and essential maintenance services will continue to be performed.

The year-end shutdown, initiated in 1981 as a cost savings measure under the Reagan Administration, has saved the federal government approximately $1 million over the past two years.

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R-2450

TREASURY NEWS

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

REMARKS BY
KATREHINE D. ORTEGA
TREASURER OF THE UNITED STATES
BEFORE THE
TRUNK AND TUSK DINNER
PIMA COUNTY REPUBLICAN CENTRAL COMMITTEE
TUCSON, ARIZONA
DECEMBER 9, 1983

Thank you for that kind introduction and I want to thank all of you for inviting me to be here with you this evening. I am especially glad to be here in Tucson, for as many of you know, I grew up in the Southwest -- in New Mexico. And like many of you, I am proud of this great country.

You have come here tonight to listen to me speak, and I appreciate that. You are, however, here for a greater, more important purpose -- to fuel the campaigns that will elect Republicans to office ... not only here in Pima county throughout the state of Arizona.

The challenge facing Republicans today is to strengthen our party at the local level, for it is here that we must win more elections if we are to have an active voice in the long-term political agenda for America.

By being here tonight, you are making a significant contribution toward this important goal. Your support and your commitment to build our party at the local level, in towns and cities and counties, and to elect Republican men and women to the courthouses and city halls, school boards and planning commissions, state legislatures and state houses, will make our strength durable and longlasting.

This is our mission and I applaud you for your participation. I know it seems like the party is always asking for contributions. But you are contributing the ways and means for those in this room, and the countless others like you in this country to build a foundation for a stronger party and a stronger America. From this foundation, we will build a base that will enable us to maintain control of the U.S. Senate, increase our numbers in the House of Representatives, and re-elect President Reagan.

R-2451

Our successes in 1984 will not only depend on our fund raising and organizational ability at the local level, but on our ability to communicate to the voters that the President's programs have made all Americans better off today than they were three years ago. This is the place where we need your help. To spread the good news.

But before I tell you about the economic good news, I would like to take a few minutes to tell you about my new job as Treasurer.

There is some confusion about what the U.S. Treasurer does. Most people believe that I spend the entire day signing dollar bills! But I am here to tell you it is a lot more than that.

As the Treasurer, I am responsible for a budget of more than $280 million and supervise 5,000 employees spread throughout the Bureau of Engraving and Printing, the Bureau of the Mint, and the U.S. Savings Bond Program.

The U.S. Savings Bond Program is important to all of us. Sales reached $4 billion last year and more than 1.2 million people either purchased bonds or increased their savings. Our goal for 1984 is to urge another 1 million to sign up or increase their savings in 1984!

The Bond Program teaches the savings habit. Without the forced discipline of the Payroll savings plan, many Americans would have no savings at all. Bonds provide an investment alternative. They are presently paying 9.37 percent interest. Bonds give every American the opportunity to participate in the financial affairs of their country.

Another program I would like to talk about this evening is the Olympic Coin Program. It was created by President Reagan, the Congress, and the Department of Treasury, it is the first time in history that the United States has supported its Olympic team with a coin program. Of the 141 countries participating in the Olympics, America's athletes are the only ones who do not receive financial support from their government.

The Series features three limited issue coins and includes the first gold coin struck by the Mint in more than 50 years.

The Olympic Coin Program works like this. A $10 surcharge is levied on the silver coins and a $50 charge on the gold. Half of the money collected from the surcharges go to support the U.S. Olympic effort by helping to train and equip American athletes and by building new training facilities. The other half goes to the Los Angeles Olympic Committee.

So far this year, over $27 million has been contributed to the U.S. Olympic Committee from this program. With the program in place, every American can play a real part in the success of our team. And our athletes can receive the assistance they need to meet international competition on equal footing.

I am also pleased to tell you that Olympic coins will soon be available at local banks through a nationwide consignment program.

The Olympic coins are not the only coins we produce. The Bureau of the Mint manufactures all our pennies, nickles, dimes, and quarters, some 18 billion coins a year.

But I do not want to mislead you because I do sign dollar bills ... ones, fives, tens, twenties, fifties, and hundreds! And during my first year, I am told, my signature will appear on 5.8 billion U.S. currency notes. The value of these notes is more than $59.6 billion.

Now that you know a little about what I do, I would like to focus the rest of my remarks on what the President has been doing in his first 1000 days. But first let us check back to the way it was in 1981.

When President Reagan came to Washington, our economy was suffering from two years of double-digit inflation and soaring interest rates. Our paychecks could not keep up with inflation and high taxes. Productivity was down. America was on the decline.

The stifled economy also stifled the peoples' incentives and in 1980, the personal savings rate dropped to very low levels. We had become a nation seemingly unconcerned with providing the seed money for future growth. Not because we as individuals had changed. Not because we did not want to save. The incentive had been removed by government policies that actively discouraged savings.

Through President Reagan's efforts, the economy has turned the corner.

Inflation has been cut by almost two-thirds.

For the first time in almost three years, real wages have increased. The average-income family now has about $1200 more to spend or save every year.

Interest rates have dropped dramatically. In 1980, the prime rate was 21.5 percent. Today -- it is at 11 percent. For many of us, this makes the high-priced items like cars and houses a financial reality again.

Auto sales and building permits are up. Housing -- the heart of our economy -- and a symbol of the American Dream--is up.

And there is good news on the employment. The jobless rate fell again in November by almost half a percentage point. This means that another half million men and women found jobs. And in only a single month. The fact is that since the beginning of 1983, over a million people have gone back to work or found new jobs. This is welcome news for many Americans.

The Democratic Party, has realized that this administration has built something better. What we have -- a strong economy -- will help us elect more Republicans in 1984.

The challenge to build a prosperous America does not just confront those of us in public office. It is a task for everyone. Men and women such as you in this audience have in your hands -- through the ballot and through the power of aroused public opinion -- the means to assure that those who would stop our progress do not interfere with our country's prosperity.

We must all restore the principles that made America great. And an essential element for growth is confidence in the future.

I am confident that together, as a united party and a united people, we can conqueor every challenge we meet. When we apply our collective will, there is no obstacle too great, no task too demanding.

Surely, we must look to the future and not the past. We have ignited an economic recovery that can last for years. This is certainly a time when Republicans can feel good about our party and our country.

We will not retreat on the fundamental of the President's economic policy. We cannot return to the days when inflation and interest rates crippled our economy. We will not accept the reckless spending habits of Congress or unconditional tax increases. We can not compromise these economic principles without compromising ourselves.

Thank you, again, for including me in your program and I wish each of you a successful new year.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 12, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,206 million of 13-week bills and for $6,219 million of 26-week bills, both to be issued on December 15, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 15, 1984			:	26-week bills maturing June 14, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.91%	9.27%	97.748	:	9.10%	9.70%	95.399
High	8.94%	9.30%	97.740	:	9.13%	9.73%	95.384
Average	8.93%	9.29%	97.743	:	9.12%	9.72%	95.389

Tenders at the high discount rate for the 13-week bills were allotted 68%.
Tenders at the high discount rate for the 26-week bills were allotted 11%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 236,495	$ 135,995	:	$ 180,200	$ 74,700
New York	13,089,075	4,531,405	:	13,482,565	4,875,690
Philadelphia	26,080	26,080	:	17,130	17,130
Cleveland	90,905	75,605	:	71,015	42,115
Richmond	53,275	46,675	:	90,400	60,380
Atlanta	41,765	41,765	:	47,410	40,290
Chicago	1,890,770	677,670	:	1,231,930	387,330
St. Louis	80,035	71,555	:	74,680	63,010
Minneapolis	25,225	23,625	:	17,690	13,240
Kansas City	43,255	43,255	:	48,425	48,425
Dallas	28,545	26,945	:	27,220	22,770
San Francisco	924,035	271,035	:	1,063,610	344,110
Treasury	234,765	234,765	:	229,310	229,310
TOTALS	$16,764,225	$6,206,375	:	$16,581,585	$6,218,500
Type					
Competitive	$14,033,995	$3,476,145	:	$13,589,050	$3,225,965
Noncompetitive	1,012,050	1,012,050	:	872,385	872,385
Subtotal, Public	$15,046,045	$4,488,195	:	$14,461,435	$4,098,350
Federal Reserve	1,679,030	1,679,030	:	1,600,000	1,600,000
Foreign Official Institutions	39,150	39,150	:	520,150	520,150
TOTALS	$16,764,225	$6,206,375	:	$16,581,585	$6,218,500

An additional $11,050 thousand of 13-week bills and an additional $153,850 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

R-2452

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. December 13, 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 $12,800 million, to be issued December 22, 1983. This offering will provide $350 million of new cash for the Treasury, as the regular 13-week and 26-week maturities were issued in the amount of $12,456 million. The $5,006 million of additional issue 17-day cash management bills issued December 5, 1983, and maturing December 22, 1983, will be redeemed at maturity.

The $12,456 million of regular maturities includes $1,382 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $3,184 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 $6,400 million, representing an additional amount of bills dated March 24, 1983, and to mature March 22, 1984 (CUSIP No. 912794 EE 0), currently outstanding in the amount of $14,003 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,400 million, to be dated December 22, 1983, and to mature June 21, 1984 (CUSIP No. 912794 FC 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 22, 1983. 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.

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-2453

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, December 19, 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 December 22, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 22, 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 RELEASE AT 4:00 P.M. December 14, 1983

TREASURY TO AUCTION $8,250 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $8,250 million of 2-year notes to be issued January 3, 1984. This issue will provide about $3,500 million new cash, as the maturing 2-year notes held by the public amount to $4,769 million, including $351 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the maturing 2-year notes, there are $2,388 million of maturing 4-year notes held by the public. The disposition of this latter amount will be announced next week. Federal Reserve Banks as agents for foreign and international monetary authorities currently hold $472 million, and Government accounts and Federal Reserve Banks for their own accounts hold $970 million of maturing 2-year and 4-year notes.

The $8,250 million is being offered to the public, and any amounts tendered by Federal Reserve Banks for their own accounts, or as agents for foreign and international monetary authorities, will be added to that amount. Tenders for such accounts will be accepted 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.

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Attachment

R-2454

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JANUARY 3, 1984

December 14, 1983

<u>Amount Offered:</u>

To the public .... $8,250 million

<u>Description of Security:</u>

Term and type of security .... 2-year notes
Series and CUSIP designation .... Series AC-1985 (CUSIP No. 912827 QG 0)
Maturity date .... December 31, 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 .... June 30 and December 31
Minimum denomination available $5,000

<u>Terms of Sale:</u>

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

<u>Key Dates:</u>

Receipt of tenders .... Wednesday, December 21, 1983, prior to 1:30 p.m., EST
Settlement (final payment due from institutions)
a) cash or Federal funds .... Tuesday, January 3, 1984
b) readily collectible check ..... Thursday, December 29, 1983

TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 14, 1983

New Tender Requirements for Treasury Auctions

The Department of the Treasury has announced new tax certification requirements for tenders submitted to purchase registered Treasury securities and Treasury bills to be maintained at the Bureau of the Public Debt. The new requirements are effective for auctions of securities to be issued after December 31, 1983, and are in conformance with the Interest and Dividend Tax Compliance Act of 1983.

Beginning with the auction of 2-year notes to be issued January 3, 1984, and the auction of Treasury bills to be issued January 5, 1984, investors must certify their tax identification number or exempt status when submitting tenders directly to the Bureau of the Public Debt or to the Federal Reserve Banks or Branches to purchase registered Treasury notes, bonds, or book-entry Treasury bills that will be recorded in accounts maintained at the Bureau of the Public Debt. Investors who are not exempt and do not have a tax identification number (TIN) must certify that they will obtain a TIN. IRS Form W-9 should be used for the certification and must accompany tenders. Tenders not accompanied by proper certification will not be accepted or included in the auction process.

In addition to the TIN certification, those investors who are not subject to backup withholding must indicate that fact on the IRS Form W-9 in order to prevent automatic backup withholding of twenty (20) percent from interest earned.

A financial institution or broker submitting tenders for its customers must determine, in accordance with IRS Temporary Employment Tax Regulations (Section 35a.9999-1), whether it is required to obtain TIN certification from its customers.

R-2455

TREASURY NEWS

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

December 15, 1983

Contact: Stephen Hayes
566-5252

CHRISTOPHER HICKS TO BE EXECUTIVE SECRETARY OF THE DEPARTMENT OF THE TREASURY

Secretary of the Treasury Regan today named Christopher Hicks Executive Secretary of the Treasury Department and Special Assistant to the Secretary.

Mr. Hicks, 33, served as Associate Director for the Economic Affairs and Transportation Group of the Office of Presidential Personnel at the White House from May 1982 to present. He was formerly Associate Counsel in the Office of the Counsel to the President as one of eight attorneys providing legal counsel to President Reagan and his staff.

Prior to joining the Reagan Administration, Mr. Hicks was an attorney with the firm of Fulbright & Jaworski in Houston, Texas.

Mr. Hicks received his Bachelor of Arts degree from Colorado College in Colorado Springs, Colorado and earned his J.D. from Southern Methodist University in Dallas, Texas.

Mr. Hicks resides in Maryland, with his wife, Elizabeth Bellamy Hicks, and son, Austin Bellamy Hicks.

R-2456

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

Remarks By
Donald T. Regan
Secretary of the Treasury
Before the
Depository Institutions Deregulation
Committee
Thursday, December 15, 1983
Washington, D.C.

"Deposit Interest Rate Deregulation and the Small Saver"

Thank you and I appreciate each of your comments and observations.

I would like to briefly review what I believe have been the major accomplishments of this Committee. They are considerable and they are impressive. But before I do, I think it is important to talk for just a moment about the economic environment in which we are operating and about what we are really after here.

Much has been said and written recently about changes in the financial industry in this country. But I think few truly comprehend the nature of those changes. The financial services sector of our economy -- indeed of the world economy -- is undergoing nothing short of a revolution. The changes are many. The impact is far reaching and the pace of transition is ever quickening. There were those back in the early 1980's who said that DIDC was moving too fast. But I think events have subsequently proven us correct. We had no choice but to move rapidly because the industry itself was -- and is -- changing so rapidly.

Secondly, we should not forget that the ultimate beneficiary of all this is the American consumer of financial services. Consumers -- and by that I mean individuals, businesses, and organizations -- want and deserve the best financial services at the best price. They want a reasonable return for their investment. And we want and need a modern, healthy financial services industry which can provide just that. That is what we are all about.

R-2587

The extensive system of deposit/interest rate controls adopted in the mid-1960's, commonly known as Regulation Q, effectively precluded many consumers from realizing the true value of their savings. In the recent past, many small savers received below market rates of interest while holders of checking accounts received even lower rates of return. As recently as 1980, the spread between Treasury bill rates and the yield on savings deposits was as great as 8 percent.

Indeed, studies indicate that the loss to depositors because of interest rate controls stretching from the late 60's to the late 70's was in the range of $20-40 billion. When the DIDC was created in 1980, it was given a charter to reverse that situation by phasing out Regulation Q interest rate controls. This was our statutory mandate and this is what we did.

For example:

-- In 1981 we converted the low, fixed-rate ceiling on the 2-1/2 year small saver account to a variable rate ceiling indexed to market rates. During the ensuing next 12 months, almost 140 billion dollars flowed into these accounts.

-- Also in 1981, the Economic Recovery Tax Act expanded eligibility for IRA/Keogh trusts, increasing the attractiveness of such investments to smaller savers. The DIDC complemented this action by establishing an 18-month ceiling-free account exclusively for IRA/Keogh depositors. This account received over 25 billion dollars in deposits within six months, far outperforming accounts with ceilings.

-- Last year, we established a short term money market deposit account (MMDA). The MMDA alone has garnered about $370 billion in deposits since its introduction exactly one year and one day ago. The DIDC deferred plans to create this account sooner in order to spur support for Congressional action to rescue ailing thrift institutions. Passage of the Garn-St Germain Act satisfied both objectives. It authorized the Net Worth Certificate program to aid troubled depository institutions and directed the DIDC to proceed with the MMDA account.

-- And finally, over the course of this year, this Committee deregulated all time deposits of over 31 days in maturity. It eliminated minimum denomination requirements on MMDAs, Super-NOWs, and ceiling-free 7- to 31-day accounts for IRA/Keogh investors. And it adopted a schedule that will eliminate minimum denominations on the latter accounts for all depositors no later than December 31, 1985.

As a result of DIDC action, commercial banks and thrift institutions are offering financial instruments with competitive interest rates to a wide range of depositors. And deregulation of interest rates provides all savers with full compensation for their contribution of capital.

The economic perspective of the Reagan Administration is based on a faith in the marketplace -- and that includes the financial marketplace. What we have done here is to take some very important steps to reintroduce the positive power of the market system back into the financial services industry. Although the road was not always as simple and free of obstacles as we might have desired, we have virtually completed our tasks in half the time allotted.

The achievements of this committee are something I think we can all be justifiably proud. They represent a very important step in strengthening the financial industry as well as the economy. And most importantly they are providing important benefits to the American public.

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON December 16, 1983

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $8,250 million of 364-day Treasury bills to be dated December 29, 1983, and to mature December 27, 1984 (CUSIP No. 912794 FL 3). This issue will provide about $1,150 million new cash for the Treasury, as the maturing 52-week bill was originally issued in the amount of $7,109 million.

The bills will be issued for cash and in exchange for Treasury bills maturing December 29, 1983. In addition to the maturing 52-week bills, there are $12,247 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 $2,023 million, and Federal Reserve Banks for their own account hold $3,759 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate 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 $454 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, prior to 1:30 p.m., Eastern Standard time, Thursday, December 22, 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.

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. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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. 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 December 29, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 29, 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 566-2041
FFB 566-2468

FOR IMMEDIATE RELEASE December 19, 1983

FEDERAL FINANCING BANK ACTIVITY

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

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies totaled $134.8 billion on October 31, 1983, a decrease of $1.3 billion over the level on September 30, 1983. The decrease included agency guaranteed debt of under $0.6 billion and agency assets of $0.8 billion. Agency debt increased by less than $0.1 billion during the month. The Federal Railroad Administration, as guarantor, repaid $0.9 billion of debt issued by Amtrak, more than offsetting a net increase in loans under other guarantee programs. A total of 199 disbursements were made during the month.

Attached to this release are tables presenting FFB September loan activity; new FFB commitments to lend during October and FFB holdings as of October 31, 1983.

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R-2459

FEDERAL FINANCING BANK

OCTOBER 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 #310	10/7	$ 20,000,000.00	10/21/83	9.015%	
Note #312	10/31	60,000,000.00	11/21/83	9.085%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #193	10/3	2,300,000.00	11/2/83	9.165%	
Note #194	10/3	500,000.00	10/31/83	9.165%	
+Note #195	10/6	10,300,000.00	12/6/83	8.995%	
Note #196	10/11	400,000.00	11/7/83	9.065%	
Note #197	10/17	100,000.00	11/15/83	9.245%	
+Note #198	10/17	10,000,000.00	11/3/83	9.245%	
Note #199	10/19	500,000.00	11/16/83	8.975%	
OFF-BUDGET AGENCY DEBT					
UNITED STATES RAILWAY ASSOCIATION					
Note #31	10/31	85,494,537.28	12/31/83	9.085%	
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES					
Israel 14	10/3	13,440,000.00	4/25/13	11.696%	
Zaire 3	10/3	344,325.00	9/15/94	11.145%	
Greece 14	10/5	759,335.20	4/30/11	11.705%	
Morocco 10	10/5	3,065,545.00	11/30/94	11.150%	
Philippines 8	10/5	9,505,492.51	3/10/88	9.495%	
Dominican Republic 6	10/6	68,442.36	6/15/92	11.415%	
Egypt 4	10/6	746,917.41	5/15/13	11.685%	
Korea 16	10/6	6,902,092.00	12/31/94	11.475%	
El Salvador 6	10/7	1,359,734.00	5/15/95	11.405%	
Panama 5	10/7	36,507.85	7/20/93	11.185%	
Jordan 9	10/7	28,535,221.85	11/25/91	11.084%	
Turkey 13	10/7	1,870,978.57	3/24/12	11.465%	
Kenya 11	10/11	715,180.23	5/5/94	11.286%	
Israel 14	10/12	10,139,952.25	4/25/13	11.855%	
Egypt 4	10/13	1,020,180.26	5/15/13	11.955%	
El Salvador 6	10/17	1,532,846.00	5/15/95	11.670%	
Greece 14	10/17	2,315,376.01	4/30/11	11.865%	
Somalia 4	10/17	1,396,711.67	11/30/12	11.719%	
Turkey 12	10/17	12,409,356.95	5/5/11	11.862%	
Israel 8	10/18	2,330,080.00	9/1/09	11.745%	
Israel 14	10/18	11,072,349.95	4/25/13	11.742%	
Panama 5	10/18	377,906.25	7/20/93	11.314%	
Ecuador 5	10/19	164,308.00	5/25/88	11.045%	
Ecuador 6	10/20	9,872.19	6/20/89	11.065%	
Egypt 4	10/20	1,711,092.01	5/15/13	11.845%	
Honduras 10	10/21	403,330.75	11/30/94	11.632%	
Philippines 8	10/21	8,362,978.48	3/10/88	9.349%	
Jordan 9	10/24	279,594.36	11/25/91	11.485%	
Israel 14	10/25	9,005,317.77	4/25/13	11.902%	
Indonesia 8	10/27	1,165,000.00	5/5/91	11.745%	
Liberia 9	10/27	75,085.00	7/21/94	11.874%	
Liberia 9	10/28	393,287.33	7/21/94	11.815%	
Greece 14	10/31	2,493,994.00	4/30/11	11.970%	
Lebanon 6	10/31	2,099,452.00	1/25/91	11.644%	

+rollover

FEDERAL FINANCING BANK

OCTOBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual	INTEREST RATE (other than semi-annual)
DEPARTMENT OF ENERGY					
Geothermal Loan Guarantees					
*Northern California Municipal Power Corp. #2	10/3	$ 45,000,000.00	12/14/83	9.165%	
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #82A	10/3	54,500,000.00	1/3/84	10.135%	
#82B	10/3	32,500,000.00	4/2/84	10.465%	
#82C	10/3	33,500,000.00	7/2/84	10.665%	
#82D	10/3	32,000,000.00	10/1/84	10.865%	
#83	10/11	10,500,000.00	1/3/84	9.765%	
#84	10/17	8,500,000.00	4/2/84	10.365%	
#85	10/24	7,000,000.00	4/2/84	10.045%	
#86	10/31	6,000,000.00	4/2/84	10.205%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant Guarantees					
Altoona, PA	10/5	200,000.00	7/31/90	11.303%	11.622% ann.
St. Petersburg, FL	10/5	72,000.00	12/1/84	10.065%	10.318% ann.
Gulfport, MS	10/6	46,918.00	6/15/84	9.605%	9.733% ann.
Cincinnati, OH	10/17	149,000.00	12/1/03	11.823%	12.172% ann.
Newburgh, NY	10/17	160,000.00	8/1/84	9.855%	10.034% ann.
Hammond, IN	10/17	200,000.00	5/1/84	9.665%	9.700% ann.
Prince Georges County, MD	10/17	70,019.00	10/1/84	9.985%	10.224% ann.
Hialeah, FL	10/20	19,443.90	12/1/83	8.965%	
U.R.A. of Pittsburgh, PA	10/20	200,000.00	5/1/04	11.722%	12.066% ann.
Syracuse Ind. Dev. Agency, NY	10/20	92,500.00	7/1/03	11.706%	12.049% ann.
Hialeah, FL	10/24	34,458.86	12/1/83	8.995%	
Jefferson County, KY	10/24	99,516.45	11/30/83	8.995%	
San Buenaventura, CA	10/24	411,469.99	8/15/84	9.645%	9.824% ann.
Atlanta, GA	10/26	1,045,000.00	11/1/83	9.125%	
Peoria, IL	10/26	300,000.00	2/1/85	10.235%	10.497% ann.
Rochester, NY	10/26	120,000.00	8/31/03	11.944%	12.301% ann.
Kenosha, WI	10/27	49,917.18	6/1/04	9.665%	9.740% ann.
Rochester, NY	10/31	360,000.00	8/31/03	11.909%	12.264% ann.
Public Housing Notes					
Sale #42	10/4	55,638,917.92	11/1/96-11/1/19	11.550%	11.884% ann.
Sale #43	10/7	28,395,867.56	11/1/97-11/1/20	11.451%	11.779% ann.
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	10/1	9,272,659.00	10/1/92	11.389%	11.713% ann.
	10/20	6,700,000.00	10/1/92	11.417%	11.743% ann.
DEPARTMENT OF THE NAVY - DEFENSE PRODUCTION ACT					
Gila River Indian Community	10/14	139,621.24	10/1/92	11.655%	11.490% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
*Corn Belt Power #94	10/1	260,000.00	10/1/85	10.655%	10.517% qtr.
*S. Mississippi Electric #171	10/1	11,159,000.00	10/1/85	10.655%	10.517% qtr.
*Arkansas Electric #142	10/1	1,717,000.00	12/31/15	11.629%	11.465% qtr.
*Associated Electric #132	10/2	8,000,000.00	10/2/85	10.655%	10.517% qtr.
*United Power #67	10/4	1,200,000.00	12/31/13	10.676%	11.510% qtr.
*United Power #129	10/4	7,500,000.00	12/31/13	10.676%	11.510% qtr
*Corn Belt Power #55	10/5	105,000.00	10/5/85	10.685%	10.546% qtr.
*Wolverine Power #100	10/5	1,761,000.00	10/5/86	10.945%	10.799% qtr.
United Power #67	10/6	6,295,000.00	10/6/85	10.575%	10.439% qtr.

*maturity extension

FEDERAL FINANCING BANK

OCTOBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd.)					
Vermont Electric #193	10/6	$ 1,800,000.00	12/30/85	10.635%	10.497% qtr.
Vermont Electric #259	10/6	1,700,000.00	12/30/85	10.635%	10.497% qtr.
Western Farmers Electric #133	10/7	1,610,000.00	12/31/17	11.529%	11.367% qtr.
Western Farmers Electric #196	10/7	404,000.00	12/31/17	11.529%	11.367% qtr.
Western Farmers Electric #220	10/7	2,031,000.00	12/31/17	11.529%	11.367% qtr.
*Vermont Electric #193	10/7	158,000.00	12/31/85	10.615%	10.478% qtr.
*Colorado Ute Electric #71	10/8	548,928.15	10/8/85	10.575%	10.439% qtr.
*East River Electric #117	10/8	1,600,000.00	10/8/85	10.575%	10.439% qtr.
*Wabash Valley Electric #104	10/9	5,775,000.00	10/9/85	10.575%	10.439% qtr.
*Sunflower Electric #174	10/9	10,000,000.00	10/9/85	10.575%	10.439% qtr.
*United Power #86	10/9	485,000.00	10/9/86	10.795%	10.653% qtr.
*Western Illinois Power #162	10/9	6,715,000.00	10/9/85	10.575%	10.439% qtr.
*Wolverine Power #100	10/10	616,000.00	10/10/86	10.795%	10.653% qtr.
*Colorado Ute Electric #78	10/11	356,000.00	10/11/86	10.805%	10.663% qtr.
Wabash Valley Power #206	10/11	6,805,000.00	10/11/85	10.575%	10.439% qtr.
Wolverine Power #234	10/11	6,848,000.00	10/11/85	10.575%	10.439% qtr.
Chugach Electric #224	10/11	2,620,000.00	12/31/17	11.548%	11.386% qtr.
Brazos Electric #108	10/12	242,000.00	10/12/85	10.805%	10.663% qtr.
Brazos Electric #230	10/12	2,117,000.00	10/12/85	10.805%	10.663% qtr.
Kansas Electric #216	10/13	907,000.00	12/31/85	10.875%	10.731% qtr.
*Wolverine Power #182	10/13	2,595,000.00	10/13/85	10.775%	10.634% qtr.
*Wolverine Power #101	10/13	483,000.00	10/13/85	10.775%	10.634% qtr.
*Wolverine Power #183	10/13	3,316,000.00	10/13/85	10.775%	10.634% qtr.
*Colorado Ute Electric #168	10/13	17,525,000.00	10/13/85	10.775%	10.634% qtr.
Cajun Electric #197	10/14	20,000,000.00	10/14/85	10.835%	10.692% qtr.
Sho-Me Power #164	10/14	490,000.00	10/14/85	10.835%	10.692% qtr.
Deseret G&T #211	10/14	18,095,000.00	12/31/85	10.935%	10.789% qtr.
*Oglethorpe Power #74	10/15	11,563,000.00	10/15/85	10.775%	10.634% qtr.
*Oglethorpe Power #150	10/15	15,754,000.00	10/15/85	10.775%	10.634% qtr.
*East Kentucky Power #73	10/15	3,700,000.00	12/31/15	11.800%	11.631% qtr.
*Central Louisiana Tele. #34	10/15	261,000.00	10/15/85	10.775%	10.634% qtr.
*Central Electric Power #131	10/15	115,000.00	10/15/85	10.775%	10.634% qtr.
*East Kentucky Power #188	10/16	3,020,000.00	12/31/15	11.800%	11.631% qtr.
*Associated Electric #132	10/16	7,100,000.00	10/16/85	10.775%	10.634% qtr.
New Hampshire #192	10/17	1,250,000.00	10/17/85	10.775%	10.634% qtr.
Allegheny Electric #255	10/17	20,000,000.00	12/31/85	10.845%	10.702% qtr.
*Associated Electric #132	10/18	9,600,000.00	10/18/85	10.615%	10.478% qtr.
*Western Illinois Power #99	10/19	3,201,000.00	10/19/86	10.895%	10.751% qtr.
*East Kentucky Power #140	10/19	1,000,000.00	12/31/15	11.739%	11.572% qtr.
Western Illinois Power #225	10/19	13,782,000.00	10/19/85	10.615%	10.478% qtr.
*Cajun Electric #180	10/19	54,000,000.00	10/19/85	10.605%	10.468% qtr.
Oglethorpe Power #246	10/20	16,993,000.00	10/20/85	10.675%	10.536% qtr.
Sugar Land Telephone #69	10/20	558,000.00	12/31/17	11.685%	11.519% qtr.
Sugar Land Telephone #210	10/20	1,274,000.00	12/31/17	11.685%	11.519% qtr.
*South Mississippi Electric #3	10/20	3,800,000.00	12/31/10	11.738%	11.571% qtr.
Sunflower Electric #174	10/21	2,800,000.00	10/21/85	10.665%	10.526% qtr.
Big Rivers Electric #143	10/21	45,000.00	12/31/85	10.715%	10.575% qtr.
Big Rivers Electric #179	10/21	5,770,000.00	12/31/85	10.715%	10.575% qtr.
*Sunflower Electric #174	10/23	25,000,000.00	10/23/85	10.605%	10.468% qtr.
Colorado Ute Electric #168	10/24	1,600,000.00	10/24/85	10.605%	10.468% qtr.
East Kentucky Power #140	10/24	1,000,000.00	12/31/17	11.641%	11.476% qtr.
East Kentucky Power #188	10/24	1,000,000.00	12/31/17	11.641%	11.476% qtr.
*Basin Electric #137	10/26	40,000,000.00	10/26/85	10.765%	10.624% qtr.
*Basin Electric #137	10/26	74,617,000.00	10/26/86	11.135%	10.984% qtr.
*Wolverine Power #101	10/26	380,000.00	10/26/85	10.765%	10.624% qtr.
*S. Mississippi Electric #3	10/26	236,000.00	10/24/86	11.125%	10.974% qtr.
*S. Mississippi Electric #90	10/26	382,000.00	10/24/86	11.125%	10.974% qtr.
Quaker State Telephone #92	10/27	1,500,000.00	12/31/17	11.908%	11.736% qtr.
North Carolina Electric #185	10/27	8,258,000.00	12/31/85	10.845%	10.702% qtr.
*Wabash Valley Electric #206	10/29	3,218,000.00	10/29/85	10.610%	10.473% qtr.
*Plains Electric #158	10/29	15,000,000.00	12/30/83	9.085%	
*North Carolina Electric #185	10/30	5,122,000.00	12/31/85	10.805%	10.663% qtr.
*Upper Missouri G&T #172	10/30	368,000.00	10/30/85	10.735%	10.595% qtr.
*Basin Electric #87	10/30	558,000.00	10/30/85	10.735%	10.595% qtr.
Corn Belt Power #138	10/31	94,000.00	10/31/85	10.735%	10.595% qtr.

*maturity extension

FEDERAL FINANCING BANK

OCTOBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd.)					
Central Electric Power #243	10/31	$ 3,235,000.00	10/31/85	10.735%	10.595% qtr.
French Broad Electric #245	10/31	315,000.00	10/31/85	10.735%	10.595% qtr.
Basin Electric #232	10/31	1,529,000.00	10/31/85	10.735%	10.595% qtr.
Tex-La Electric #208	10/31	650,000.00	10/31/85	10.735%	10.595% qtr.
Plains Electric #158	10/31	9,826,000.00	10/31/85	10.735%	10.595% qtr.
Plains Electric #215	10/31	3,521,000.00	12/31/17	10.909%	10.737% qtr.
*Big Rivers Electric #91	10/31	8,355,000.00	10/31/85	10.735%	10.595% qtr.
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
CCD Bus. Dev. Corp.	10/5	37,000.00	10/1/98	11.575%	
Wilmington Ind. Dev. Corp. Inc	10/5	38,000.00	10/1/98	11.575%	
N.E. Missouri Cert. Dev. Corp.	10/5	38,000.00	10/1/98	11.575%	
Illinois Sm. Bus. Growth Corp.	10/5	57,000.00	10/1/98	11.575%	
Texas Panhandle Reg. Dev. Corp	10/5	65,000.00	10/1/98	11.575%	
Greater Salt Lake Bus. Dis.	10/5	91,000.00	10/1/98	11.575%	
Louisville Ec. Dev. Corp.	10/5	95,000.00	10/1/98	11.575%	
Jackson Local Dev. Co.	10/5	101,000.00	10/1/98	11.575%	
Buffalo Trace Area Dev. Dis.	10/5	102,000.00	10/1/98	11.575%	
N.E. Missouri Cert. Dev. Co.	10/5	112,000.00	10/1/98	11.575%	
Evergreen Com. Dev. Assoc.	10/5	116,000.00	10/1/98	11.575%	
St. Louis Local Dev. Co.	10/5	118,000.00	10/1/98	11.575%	
Onondaga Ind. Dev. Second Corp	10/5	125,000.00	10/1/98	11.575%	
Bus. Dev. Corp. of Nebraska	10/5	128,000.00	10/1/98	11.575%	
Boston Local Dev. Corp.	10/5	180,000.00	10/1/98	11.575%	
Bay Area Employment Dev. Co.	10/5	212,000.00	10/1/98	11.575%	
Massachusetts Cert. Dev. Corp.	10/5	315,000.00	10/1/98	11.575%	
Greater Salt Lake Bus. Dis.	10/5	330,000.00	10/1/98	11.575%	
Illinois Sm. Bus. Growth Corp.	10/5	336,000.00	10/1/98	11.575%	
E.D.C. of Shasta County	10/5	420,000.00	10/1/98	11.575%	
Milwaukee Econ. Dev. Corp.	10/5	420,000.00	10/1/98	11.575%	
Evergreen Com. Dev. Assoc.	10/5	500,000.00	10/1/98	11.575%	
Greater Salt Lake Bus. Dis.	10/5	500,000.00	10/1/98	11.575%	
CCD Bus. Dev. Corp.	10/5	20,000.00	10/1/03	11.675%	
Crossroads EDC, St Charles Cnty	10/5	24,000.00	10/1/03	11.675%	
Dev. Corp. of Middle Georgia	10/5	32,000.00	10/1/03	11.675%	
Lake County Econ. Dev. Corp.	10/5	38,000.00	10/1/03	11.675%	
Faribault Ind. Corp.	10/5	45,000.00	10/1/03	11.675%	
Middle Flint Area Dev. Corp.	10/5	56,000.00	10/1/03	11.675%	
Garland Local Dev. Corp.	10/5	61,000.00	10/1/03	11.675%	
Nevada State Dev. Corp.	10/5	61,000.00	10/1/03	11.675%	
Texas Cert. Dev. Co., Inc.	10/5	62,000.00	10/1/03	11.675%	
Lawrence Ave. Dev. Corp.	10/5	64,000.00	10/1/03	11.675%	
Gr. Eastern Oregon Dev. Corp.	10/5	89,000.00	10/1/03	11.675%	
Massachusetts Cert. Dev. Corp.	10/5	89,000.00	10/1/03	11.675%	
Los Medanos Fund	10/5	128,000.00	10/1/03	11.675%	
San Diego County L.D.C.	10/5	130,000.00	10/1/03	11.675%	
Allentown Econ. Dev. Corp.	10/5	133,000.00	10/1/03	11.675%	
Hamilton County Dev. Co., Inc.	10/5	134,000.00	10/1/03	11.675%	
Jacksonville Local Dev. Co.	10/5	139,000.00	10/1/03	11.675%	
Gr. Bakersfield Local Dev. Co.	10/5	142,000.00	10/1/03	11.675%	
Allentown Econ. Dev. Corp.	10/5	159,000.00	10/1/03	11.675%	
Long Beach Local Dev. Corp.	10/5	162,000.00	10/1/03	11.675%	
Texas Certified Dev. Co., Inc.	10/5	183,000.00	10/1/03	11.675%	
Crown Dev. Corp. of Kings Cnty	10/5	185,000.00	10/1/03	11.675%	
Gr. Metro. Chicago Dev. Corp.	10/5	208,000.00	10/1/03	11.675%	
CSRA Local Dev. Corp.	10/5	213,000.00	10/1/03	11.675%	
San Diego County L.D.C.	10/5	268,000.00	10/1/03	11.675%	
New Orleans Citywide Dev. Corp	10/5	283,000.00	10/1/03	11.675%	
Bay Colony Dev. Corp.	10/5	361,000.00	10/1/03	11.675%	
Warren Redev. & Planning Corp.	10/5	34,000.00	10/1/08	11.706%	
Los Medanos Fund	10/5	54,000.00	10/1/08	11.706%	

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FEDERAL FINANCING BANK

OCTOBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
State & Local Development Company Debentures (Cont'd)					
Texas Cert. Dev. Co., Inc.	10/5	$ 54,000.00	10/1/08	11.706%	
Clay County Dev. Corp.	10/5	61,000.00	10/1/08	11.706%	
Evergreen Com. Dev. Assoc.	10/5	66,000.00	10/1/08	11.706%	
Caprock Local Dev. Co.	10/5	75,000.00	10/1/08	11.706%	
River East Progress, Inc.	10/5	88,000.00	10/1/08	11.706%	
N. Kentucky Area Dev Dis, Inc	10/5	91,000.00	10/1/08	11.706%	
San Diego County L.D.C.	10/5	117,000.00	10/1/08	11.706%	
Evergreen Com. Dev. Assoc.	10/5	126,000.00	10/1/08	11.706%	
Bay Area Employment Dev. Co.	10/5	130,000.00	10/1/08	11.706%	
Verd-Ark-Ca Development Corp.	10/5	135,000.00	10/1/08	11.706%	
Montgomery County B.D.C	10/5	147,000.00	10/1/08	11.706%	
Columbus Countywide Dev. Corp.	10/5	149,000.00	10/1/08	11.706%	
Evergreen Com. Dev. Assoc.	10/5	242,000.00	10/1/08	11.706%	
Metro Sm. Bus. Assistance Corp	10/5	273,000.00	10/1/08	11.706%	
La Habra Loc. Dev. Co., Inc.	10/5	431,000.00	10/1/08	11.706%	
Columbus Countywide Dev. Corp.	10/5	453,000.00	10/1/08	11.706%	
Bay Colony Development Corp.	10/5	500,000.00	10/1/08	11.706%	
Pittsburgh Countywide Corp Inc	10/5	500,000.00	10/1/08	11.706%	
Ocean State Bus. Dev. Auth Inc	10/5	500,000.00	10/1/08	11.706%	
Bay Area Employment Dev. Co.	10/5	500,000.00	10/1/08	11.706%	
Bay Area Employment Dev. Co.	10/5	500,000.00	10/1/08	11.706%	
Small Business Investment Company Debentures					
Colorado Gr. Cap., Inc.	10/21	500,000.00	10/1/88	11.315%	
Ivanhoe Venture Cap., Ltd.	10/21	500,000.00	10/1/88	11.315%	
New West Partners	10/21	500,000.00	10/1/88	11.315%	
American Commercial Cap. Corp.	10/21	1,000,000.00	10/1/93	11.615%	
Brentwood Cap. Corp.	10/21	3,000,000.00	10/1/93	11.615%	
Bus. Cap. Corp. of Arlington	10/21	500,000.00	10/1/93	11.615%	
Interstate Cap. Co., Inc.	10/21	1,000,000.00	10/1/93	11.615%	
PCF Venture Cap. Corp.	10/21	1,500,000.00	10/1/93	11.615%	
Questech Capital Corp.	10/21	2,000,000.00	10/1/93	11.615%	
RIHT Capital Corp.	10/21	2,000,000.00	10/1/93	11.615%	
Reedy River Ventures, Inc.	10/21	500,000.00	10/1/93	11.615%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-84-1	10/31	354,101,528.40	1/31/84	9.115%	
DEPARTMENT OF TRANSPORTATION					
Section 511—4R Act					
Milwaukee Road 511-2	10/24	158,774.00	6/30/06	11.821%	

FEDERAL FINANCING BANK

October 1983 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Kenosha, WI	HUD	$ 190,156.40	6/1/84	6/1/84
Lansing, MI	HUD	200,000.00	9/1/84	9/1/84
Maywood, CA	HUD	600,000.00	8/1/84	8/1/84
Rochester, NY	HUD	1,989,500.00	8/31/84	8/31/03
San Antonio L.D.C., Inc., TX	HUD	1,000,000.00	9/1/84	9/1/04
Buffalo Urban Renewal Ag., NY	HUD	1,480,500.00	8/1/84	8/1/03

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	October 31, 1983	September 30, 1983	Net Change 10/1/83-10/31/83
On-Budget Agency Debt			
Tennessee Valley Authority	$ 13,175.0	$ 13,115.0	$ 60.0
Export-Import Bank	14,675.9	14,675.9	-0-
NCUA-Central Liquidity Facility	36.6	44.2	-7.6
Off-Budget Agency Debt			
U.S. Postal Service	1,154.0	1,154.0	-0-
U.S. Railway Association	124.7	124.7	-0-
Agency Assets			
Farmers Home Administration	55,916.0	56,691.0	-775.0
DHHS-Health Maintenance Org.	118.8	118.8	-0-
DHHS-Medical Facilities	143.7	143.7	-0-
Overseas Private Investment Corp.	16.3	16.3	-0-
Rural Electrification Admin.-CBO	3,467.5	3,467.5	-0-
Small Business Administration	47.9	48.5	-0.5
Government-Guaranteed Lending			
DOD-Foreign Military Sales	14,395.9	14,293.4	102.5
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-
DOE-Geothermal Loans Guarantees	45.0	45.0	-0-
DOE-Non-Nuclear Act (Great Plains)	927.0	885.5	41.5
DHUD-Community Dev. Block Grant	180.2	177.3	2.9
DHUD-New Communities	33.5	33.5	-0-
DHUD-Public Housing Notes	2,150.9	2,066.8	84.0
General Services Administration	417.3	417.3	-0-
DOI-Guam Power Authority	36.0	36.0	-0-
DOI-Virgin Islands	29.1	29.1	-0-
NASA-Space Communications Co.	838.7	947.2	-108.5
DON-Defense Production Act	1.2	1.1	0.1
Rural Electrification Admin.	19,092.8	18,938.9	153.9
SBA-Small Business Investment Cos.	816.8	804.3	12.5
SBA-State/Local Development Cos.	160.6	147.8	12.9
TVA-Seven States Energy Corp.	1,437.3	1,418.5	18.8
DOT-Amtrak	-0-	880.0	-880.0
DOT-Section 511	183.0	183.5	-0.6
DOT-WMATA	177.0	177.0	-0-
TOTALS*	$ 134,798.8	$ 136,081.8	$ -1,283.0

*figures may not total due to rounding

TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 19, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,405 million of 13-week bills and for $6,403 million of 26-week bills, both to be issued on December 22, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 22, 1984			:	26-week bills maturing June 21, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.98%	9.34%	97.730	:	9.22%	9.83%	95.339
High	9.06%	9.43%	97.710	:	9.24%	9.85%	95.329
Average	9.04%	9.41%	97.715	:	9.24%	9.85%	95.329

Tenders at the high discount rate for the 13-week bills were allotted 32%.
Tenders at the high discount rate for the 26-week bills were allotted 89%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 230,685	$ 30,685	:	$ 170,120	$ 29,845
New York	12,751,700	5,268,900	:	13,802,485	5,664,855
Philadelphia	28,380	28,380	:	17,615	17,615
Cleveland	83,635	46,835	:	129,995	109,875
Richmond	136,625	135,265	:	69,920	46,140
Atlanta	37,805	37,805	:	61,030	39,930
Chicago	1,261,690	420,410	:	1,017,235	97,585
St. Louis	29,825	22,465	:	69,890	57,890
Minneapolis	70,960	69,600	:	32,160	27,475
Kansas City	43,615	43,615	:	42,010	41,940
Dallas	20,975	20,975	:	23,985	18,985
San Francisco	850,370	68,690	:	897,300	52,430
Treasury	210,950	210,950	:	198,610	198,610
TOTALS	$15,757,215	$6,404,575	:	$16,532,355	$6,403,175
Type					
Competitive	$13,155,495	$3,802,855	:	$13,457,835	$3,328,655
Noncompetitive	925,565	925,565	:	728,520	728,520
Subtotal, Public	$14,081,060	$4,728,420	:	$14,186,355	$4,057,175
Federal Reserve	1,655,955	1,655,955	:	1,575,000	1,575,000
Foreign Official Institutions	20,200	20,200	:	771,000	771,000
TOTALS	$15,757,215	$6,404,575	:	$16,532,355	$6,403,175

1/ Equivalent coupon-issue yield.

R-2460

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
MONDAY, DECEMBER 19, 1983

Statement by Donald T. Regan
Secretary of the Treasury
December 19, 1983

I am pleased to announce today that one of this nation's most sensitive computer systems is now back in our hands and not on its way to the Soviet Union. Through the exemplary work of the U.S. Customs Service, the tremendous assistance of the West German authorities, and the excellent cooperation of our Defense Department, we have prevented what would have been an espionage coup by the Soviets. I should point out that what you see here represents only half of the equipment that was brought back from West Germany.

This VAX 11/782 high-powered computer system, valued at $1 1/2 million dollars, is primarily designed for sophisticated military applications. For example, it can be used for the simulation of both missile target encounters and fuse processors, the logic design of military systems, and the simulation of military operations. And those are just a few of the computer's possible uses.

The Soviet Union will go to great lengths to obtain high technology equipment. Whether they have to use legal or illegal means, the USSR will do what is necessary because it does not have the wherewithal to develop comparable technology.

Operation Exodus is the Customs Service program aimed at stemming the illegal flow of American high technology to the Soviet Union and its Eastern bloc satellites. Since Exodus was conceived in 1981, more than 125 cases of technology export control violations have been referred to the Justice Department for criminal prosecution.

I think you can anticipate more action by our Customs agents and I want to commend them and others involved for the outstanding work they have accomplished up to now.

Secretary Weinberger, would you like to comment?

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 20, 1983

Contact: Charles Powers
566-2041

Treasury Announces Guidance on Tax Treatment of Employee Fringe Benefits

Secretary of the Treasury Donald T. Regan today announced the Treasury Department will not issue any regulations or rulings altering the tax treatment of nonstatutory fringe benefits prior to January 1, 1985. As a result, present administrative practice will not be changed during this period.

This decision will alleviate the uncertainty created by expiring legislation and will provide members of Congress with sufficient time to develop a legislative alternative to regulations. It is expected that Congress will take legislative action in this area in early 1984, while regulations would have taken some time to develop.

On December 31, 1983, the legislative moratorium on the issuance of regulations and rulings with respect to fringe benefits expires.

R-2461

// TREASURY NEWS

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

For Immediate Release
December 20, 1983

Contact: Charles Powers
(202) 566-2041

TEMPORARY MORATORIUM ON DETERMINATIONS REGARDING TAX DEFINITION OF LIFE INSURANCE ANNOUNCED

The Treasury Department and the IRS announced today that, during 1984 and prior to congressional resolution of new life insurance legislation now under consideration, there is no intention to issue any ruling, technical advice, or rule of general application regarding the definition of life insurance for any policy issued during 1984 and prior to Congressional action.

Section 101(f) of the Internal Revenue Code, which treats certain flexible premium contracts as life insurance if certain specified conditions are satisfied, will expire at the end of 1983. The proposed life insurance legislation will provide a new, permanent definition of life insurance, effective January 1, 1984. Treasury fully supports retention of the proposed January 1, 1984 effective date of this definition.

This announcement is made because of the present uncertain state of the law regarding such policies in light of ongoing congressional consideration of that legislation.

R-2462

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 20, 1983

Contact: Brien Benson
566-2041

REGAN ACCEPTS $56 MILLION RETURN TO TREASURY

Treasury Secretary Donald Regan today accepted from the Overseas Private Investment Corporation a check for $56 million, representing completed repayment of the $106 million Congress appropriated in 1971 for the agency's startup. The Corporation (OPIC) returned $50 million to the U.S. Treasury last year.

In accepting the check, Regan said, "This repayment to the American taxpayer reflects the Reagan Administration's deep commitment to making government operations more businesslike and self-sufficient wherever possible. Through imaginative business practices, OPIC has dramatically increased its volume. For the past 28 months insurance volume exceeded the total $7.5 billion recorded from 1973 thru 1980. I congratulate OPIC president Craig A. Nalen."

OPIC encourages American business investment in some 100 developing nations by providing political risk insurance, loan guarantees, and direct loans. By spurring growth abroad, such investment increases opportunities for U.S. exports.

OPIC, now self-sustaining, reported net income of $82.7 million for fiscal 1983.

R-2463

TREASURY NEWS

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

For Immediate Release
December 20, 1983

Contact: Charlie Powers
566-2041

TREASURY DEPARTMENT TO RECOMMEND LEGISLATION ON ARBITRAGE BONDS ISSUED BY U.S. POSSESSIONS AND PUERTO RICO

The Treasury Department announced today that it will seek legislation to deny tax-exempt status to obligations of U.S. possessions and Puerto Rico that do not comply with the arbitrage restrictions of the Internal Revenue Code. This announcement is in response to an alarming volume of tax-exempt bonds that have been marketed or announced in recent weeks primarily for arbitrage purposes.

The proposed legislation will be effective for bonds issued after the date of this announcement. In addition, the Department announced that it is studying other means to deny the benefit of arbitrage profits to these issuers with respect to recently issued obligations that would not be subject to the proposed legislation.

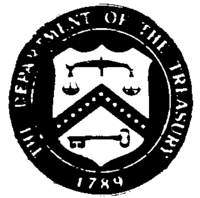
The Internal Revenue Code generally provides an exemption from Federal income tax for interest on obligations of a State, a Territory, or a possession of the United States, or any political subdivision thereof, or of the District of Columbia. Tax exemption is denied, however, for any obligation that is classified as an "arbitrage bond" under the Code. An obligation is an arbitrage bond under the Code if it is issued to obtain funds for investment in taxable securities at a yield that is materially higher than the yield on the arbitrage bond.

The arbitrage bond restrictions of the Code were enacted in 1969 to prevent issuers of tax-exempt obligations from earning unlimited profits by investing tax-exempt bond proceeds in higher yielding taxable securities. The Code restrictions technically do not apply to obligations issued by a number of U.S. possessions and Puerto Rico. This is because the obligations of these jurisdictions are granted tax-exempt status under statutory provisions that are not subject to the restrictions contained in the Internal Revenue Code.

The Tax Reform Act of 1983 (H.R. 4170), as reported by the House Ways and Means Committee on October 21, 1983, contains a provision that would extend the arbitrage restrictions of the

Internal Revenue Code to all tax-exempt obligations, including obligations of U.S. possessions and Puerto Rico, effective for obligations issued after December 31, 1983. It has come to the Treasury Department's attention that Puerto Rico recently has issued $450 million of bonds primarily to earn arbitrage profits by investing the proceeds in taxable securities. In addition, Treasury understands that Guam intends to issue $850 million of bonds for arbitrage purposes before year end, and that other U.S. possessions may be planning similar bond issues. The Treasury announcement is intended to prevent the issuance of these additional obligations and to advise issuers that it intends to deny them the benefits of arbitrage profits on obligations issued recently for arbitrage purposes.

TREASURY NEWS



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

FOR RELEASE AT 4:00 P.M. December 20, 1983

TREASURY ANNOUNCES NOTE AND BOND OFFERINGS TOTALING $15,000 MILLION

The Treasury will raise about $12,600 million of new cash by issuing $6,000 million of 4-year notes, $5,250 million of 7-year notes, and $3,750 million of 19-year 10-month bonds. This offering will also refund $2,388 million of 4-year notes maturing December 31, 1983. The $2,388 million of maturing 4-year notes are those held by the public, including $121 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the maturing 4-year notes, there are $4,769 million of maturing 2-year notes held by the public. The disposition of this latter amount was announced last week. Federal Reserve Banks, as agents for foreign and international monetary authorities, currently hold $472 million, and Government accounts and Federal Reserve Banks for their own account hold $970 million of maturing 2-year and 4-year notes. The maturing securities held by Federal Reserve Banks for their own account may be refunded by issuing additional amounts of the new 2-year and 4-year notes at the average prices of accepted competitive tenders.

The $15,000 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

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

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Attachment

R-2465

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 4-YEAR NOTES, 7-YEAR NOTES, AND 19-YEAR 10-MONTH BONDS

December 20, 1983

Amount Offered:			
To the public	$6,000 million	$5,250 million	$3,750 million
Description of Security:			
Term and type of security	4-year notes	7-year notes	19-year 10-month bonds
Series and CUSIP designation	Series L-1987 (CUSIP No. 912827 QH 8)	Series D-1991 (CUSIP No. 912827 QJ 4)	Bonds of 2003 (CUSIP No. 912810 DG 0)
Issue date	January 3, 1984	January 4, 1984	January 4, 1984
Maturity date	December 31, 1987	January 15, 1991	November 15, 2003
Call date	No provision	No provision	No provision
Interest rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	11-7/8%
Investment yield	To be determined at auction	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates	June 30 and December 31	July 15 and January 15 (first payment on July 15, 1984)	May 15 and November 15
Minimum denomination available	$1,000	$1,000	$1,000
Terms of Sale:			
Method of sale	Yield Auction	Yield Auction	Yield Auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	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	Accepted in full at the average price up to $1,000,000	Accepted in full at the average price up to $1,000,000
Accrued interest payable by investor	None	None	$29.54211 per $1,000 (from October 5, 1983, to January 4, 1984)
Payment by non-institutional investors	Full payment to be submitted with tender	Full payment to be submitted with tender	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable	Acceptable	Acceptable
Key Dates:			
Receipt of tenders	Tuesday, December 27, 1983, prior to 1:30 p.m., EST	Wednesday, December 28, 1983, prior to 1:30 p.m., EST	Thursday, December 29, 1983, prior to 1:30 p.m., EST
Settlement (final payment due from institutions)			
a) cash or Federal funds	Tuesday, January 3, 1984	Wednesday, January 4, 1984	Wednesday, January 4, 1984
b) readily collectible check	Thursday, December 29, 1983	Friday, December 30, 1983	Friday, December 30, 1983

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. December 20, 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 $12,800 million, to be issued December 29, 1983. This offering will provide $ 550 million of new cash for the Treasury, as the maturing bills were originally issued in the amount of $12,247 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 6,400 million, representing an additional amount of bills dated September 29, 1983, and to mature March 29, 1984 (CUSIP No. 912794 ET 7), currently outstanding in the amount of $ 6,019 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 6,400 million, to be dated December 29, 1983, and to mature June 28, 1984 (CUSIP No. 912794 FD 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 29, 1983. In addition to the maturing 13-week and 26-week bills, there are $ 7,109 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Federal Reserve Banks, as agents for foreign and international monetary authorities, currently hold $ 1,992 million, and Federal Reserve Banks for their own account hold $ 3,817 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills.

Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average 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 $ 1,538 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, prior to 12:30 p.m., Eastern Standard time, Tuesday, December 27, 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 December 29, 1983, in cash or other immediately-available funds or in Treasury bills maturing December 29, 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

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

December 21. 1983

Statement by Secretary Regan

Today's estimate of 4th quarter GNP growth is lower than I had anticipated. It both surprised and pleased me. It represents solid growth and is good news.

The pieces for continued steady growth are falling into place. Inflation is low and we got even more good news on the CPI this morning. Interest rates should move down further. And consumer spending is way up.

We still have more work to do on unemployment, but we have made -- and will continue to make -- significant gains.

The only factor that could throw us off course is too little growth in the money supply. There is no fear of either inflation or overheating. And this is an excellent opportunity for those in the money field to be more accommodative.

There is now less need to lean against an inflationary wind that is probably not, in fact, blowing.

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R-2467

TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 21, 1983

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $8,261 million of $17,464 million of tenders received from the public for the 2-year notes, Series AC-1985, auctioned today. The notes will be issued January 3, 1984, and mature December 31, 1985.

The interest rate on the notes will be 10-7/8%. The range of accepted competitive bids, and the corresponding prices at the 10-7/8% interest rate are as follows:

	Yield	Price
Low	10.83%	100.079
High	10.90%	99.956
Average	10.89%	99.974

Tenders at the high yield were allotted 86%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 253,905	$ 142,790
New York	14,336,130	6,494,390
Philadelphia	57,595	47,595
Cleveland	161,965	138,285
Richmond	162,630	137,520
Atlanta	113,695	110,455
Chicago	961,005	523,945
St. Louis	178,250	166,340
Minneapolis	65,815	64,395
Kansas City	128,065	125,065
Dallas	37,275	36,565
San Francisco	1,002,780	268,540
Treasury	4,930	4,930
Totals	$17,464,040	$8,260,815

The $8,261 million of accepted tenders includes $1,218 million of noncompetitive tenders and $7,043 million of competitive tenders from the public.

In addition to the $8,261 million of tenders accepted in the auction process, $110 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $600 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-2468

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 22, 1983

CONTACT: Charlie Powers
(202) 566-2041

Treasury Announces Bank of America Settlement

The Bank of America has received $472 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. The Bank of America in turn paid $289.1 million to Bank Markazi in settlement of Iran's claims against Bank of America primarily for interest on blocked Iranian accounts. Thus, the net amount realized on this settlement by the Bank of America was approximately $182.9 million.

This was the twenty-fifth settlement reached by a U.S. bank having outstanding loan claims against Dollar Account No. 2. It is the largest bank claim against Iran. Other large settlements with Iran include Citibank, which received $125 million in April; Chase Manhattan, which received $92 million in July; Manufacturers Hanover, which received $136 million in July and the Export-Import Bank of the U.S. which received $419.5 million in August.

As of this date, approximately $1.39 billion has been paid out of Dollar Account No. 2, which has been earning interest since the initial deposit, to U.S. banks. Of this amount, approximately $616 million has been paid to Iran by the U.S. banks mostly for the unpaid interest on deposits formerly held at domestic branches of U.S. banking institutions.

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.

R-2469

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 566-2041
FFB 566-2468

FOR IMMEDIATE RELEASE December 22, 1983

FEDERAL FINANCING BANK ACTIVITY

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

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies totaled $135.4 billion on November 30, 1983, an increase of less than $0.6 billion over the level on October 31, 1983. The increase included agency guaranteed debt of over $0.5 billion. Holdings of agency debt issues and agency assets posted a net increase of less than $0.1 billion. A total of 247 disbursements were made during the month.

Attached to this release are tables presenting FFB November loan activity; new FFB commitments to lend during November and FFB holdings as of November 30, 1983.

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R-2470

NOVEMBER 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 #314	11/3	$ 95,000,000.00	1/5/84	8.945%	
Note #315	11/9	25,000,000.00	11/15/83	9.215%	
Note #316	11/15	15,000,000.00	3/1/84	9.295%	
Note #317	11/21	5,000,000.00	3/1/84	9.385%	
Note #318	11/30	25,000,000.00	12/16/83	9.345%	
Note #319	11/30	55,000,000.00	12/21/83	9.345%	
Power Bond Series 1983 E	11/3	150,000,000.00	1/31/14	11.905%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #200	11/2	2,300,000.00	12/2/83	8.925%	
+Note #201	11/3	5,000,000.00	11/18/83	8.945%	
+Note #202	11/3	5,000,000.00	2/1/84	8.945%	
+Note #203	11/7	6,000,000.00	12/16/83	9.265%	
+Note #204	11/7	6,000,000.00	2/6/84	9.265%	
+Note #205	11/18	5,000,000.00	12/19/83	9.325%	
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES					
Korea 16	11/1	15,756.61	12/31/94	11.875%	
Egypt 4	11/1	1,242,043.65	5/15/13	12.055%	
Philippines 8	11/1	1,801,529.90	3/10/88	9.805%	
Somalia 4	11/1	846,969.66	11/30/12	11.908%	
Israel 14	11/3	9,765,337.68	4/25/13	11.944%	
Turkey 13	11/3	874,419.25	3/24/12	11.855%	
Ecuador 5	11/7	138,554.40	5/25/88	11.411%	
Egypt 4	11/7	5,867,482.00	5/15/13	12.195%	
Kenya 10	11/7	480,493.91	5/5/94	11.715%	
Thailand 10	11/7	10,551.00	7/10/94	11.795%	
Honduras 10	11/9	78,352.14	11/30/94	11.995%	
Israel 14	11/9	22,656,089.93	4/25/13	12.076%	
Morocco 11	11/9	1,818,289.42	9/8/95	11.665%	
Philippines 8	11/9	2,983,729.72	3/10/88	10.337%	
Turkey 13	11/9	2,736,133.15	3/24/12	11.985%	
Ecuador 7	11/10	4,000,000.00	9/15/95	11.900%	
Egypt 4	11/10	113,632,303.93	5/15/13	12.133%	
Greece 13	11/10	5,250,800.58	9/22/90	11.798%	
Panama 5	11/10	2,402,174.83	7/20/93	11.843%	
Spain 5	11/10	308,124.00	6/15/91	11.725%	
Turkey 14	11/10	876,997.00	11/30/12	11.995%	
Morocco 11	11/10	8,658,186.30	9/8/95	11.773%	
Israel 14	11/15	6,503,402.16	4/25/13	11.868%	
Tunisia 14	11/15	25,000,000.00	9/15/95	11.743%	
Morocco 11	11/15	369,779.00	9/8/95	11.695%	
Turkey 13	11/17	498,650.76	3/24/12	11.845%	
Philippines 8	11/17	9,437,104.74	3/10/88	10.729%	
Egypt 4	11/17	2,950,343.72	5/15/13	11.995%	
Greece 14	11/17	2,518,809.45	4/30/11	11.975%	
Greece 13	11/17	1,191,149.78	9/22/90	11.685%	
Korea 16	11/21	183,077.00	12/31/94	11.875%	
Lebanon 7	11/21	16,086,617.00	7/25/91	11.084%	
Pakistan 3	11/21	60,000,000.00	9/10/95	11.732%	
Portugal 1	11/21	9,999,000.00	9/10/94	10.474%	
Israel 8	11/22	2,278,345.60	9/1/09	11.935%	
Israel 14	11/22	5,470,464.21	4/25/13	11.842%	
Liberia 10	11/22	3,730,052.00	5/15/95	11.652%	
Turkey 13	11/22	4,603,000.00	3/24/12	11.802%	
Jordan 9	11/25	161,845.56	11/25/91	11.625%	
Spain 6	11/25	15,547.50	9/15/92	11.675%	

+rollover

FEDERAL FINANCING BANK

NOVEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
DEPARTMENT OF DEFENSE - FOREIGN MILITARY SALES (Cont'd)					
Dominican Republic 7	11/29	$ 846,000.00	9/10/95	11.552%	
Greece 14	11/29	2,440,387.00	4/30/11	11.905%	
Morocco 11	11/29	2,238,283.45	9/8/95	11.694%	
Philippines 8	11/29	1,610,074.94	3/10/88	11.000%	
Spain 5	11/29	1,625,751.94	6/15/91	11.585%	
Thailand 10	11/29	2,106,516.00	7/10/94	11.635%	
Turkey 12	11/29	266,178.16	5/5/11	11.885%	
Turkey 13	11/29	11,028,653.16	3/24/12	11.790%	
DEPARTMENT OF ENERGY					
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #87	11/7	8,000,000.00	4/2/84	10.045%	
#88	11/14	6,500,000.00	1/3/84	10.005%	
#89	11/21	7,500,000.00	4/2/84	10.255%	
#90	11/28	9,000,000.00	4/2/84	10.205%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant Guarantees					
*Atlanta, GA	11/1	2,500,000.00	11/1/89	11.279%	11.597% ann.
Rochester, NY	11/2	500,000.00	8/31/03	11.912%	12.267% ann.
Louisville, KY	11/3	200,000.00	2/1/85	10.215%	10.476% ann.
Prince Georges County, MD	11/4	253,599.00	10/1/84	9.975%	10.199% ann.
Syracuse Ind. Dev. Agency, NY	11/9	360,000.00	7/1/03	12.057%	12.420% ann.
Des Moines, IA	11/15	200,000.00	2/15/84	9.245%	
Maywood, CA	11/16	600,000.00	8/1/84	9.815%	9.958% ann.
Hialeah, FL	11/16	78,235.00	12/1/83	9.255%	
Jefferson County, KY	11/16	649,253.31	11/30/83	9.265%	
Gulfport, MS	11/22	31,422.00	6/1/84	9.635%	9.657% ann.
*Jefferson County, KY	11/30	9,500,000.00	11/30/88	11.170%	11.482% ann.
Public Housing Notes					
Sale #44	11/1	44,605,721.32	11/1/97— 11/1/20	11.846%	12.197% ann.
Sale #45	11/4	29,970,701.76	11/1/97— 11/1/19	11.909%	12.264% ann.
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	11/21	8,200,000.00	10/1/92	11.625%	11.963% ann.
DEPARTMENT OF THE NAVY - DEFENSE PRODUCTION ACT					
Gila River Indian Community	11/16	166,145.75	10/1/92	11.655%	11.490% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
Saluda River Electric #186	11/1	3,454,000.00	11/1/85	10.745%	10.604% qtr.
Arkansas Electric #143	11/1	2,512,000.00	12/31/17	11.940%	11.767% qtr
*Saluda River Electric #186	11/2	1,728,000.00	11/2/85	10.775%	10.634% qtr.
*Medina Electric #113	11/2	757,000.00	11/21/86	11.095%	10.945% qtr.
*Colorado Ute Electric #78	11/2	3,238,000.00	11/2/86	11.095%	10.945% qtr.
*Arkansas Electric #142	11/2	7,578,000.00	12/31/15	11.934%	11.761% qtr.
*United Power #139	11/2	2,900,000.00	11/2/85	10.775%	10.634% qtr.
*S. Mississippi Electric #171	11/3	2,500,000.00	11/3/85	10.755%	10.614% qtr.
*Colorado Ute Electric #71	11/4	2,387,000.00	11/4/85	10.755%	10.614% qtr.
*Brazos Electric #108	11/4	1,555,000.00	11/4/85	10.755%	10.614% qtr.
*Brazos Electric #144	11/4	1,284,000.00	11/4/85	10.755%	10.614% qtr.
Kansas Electric #216	11/4	1,140,000.00	12/31/85	10.855%	10.712% qtr.
*United Power #67	11/5	700,000.00	11/5/85	10.885%	10.741% qtr.
*Hoosier Energy #107	11/5	20,000,000.00	11/5/85	10.885%	10.741% qtr.
*United Power #129	11/5	1,050,000.00	11/5/85	10.885%	10.741% qtr.

*maturity extension

FEDERAL FINANCING BANK

NOVEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
*Sunflower Electric #174	11/6	$ 15,000,000.00	11/6/85	10.885%	10.741% qtr.
*West Virginia Telephone #17	11/7	1,000,000.00	11/7/85	10.895%	10.751% qtr.
Central Electric #243	11/7	2,138,000.00	11/7/85	10.895%	10.751% qtr.
Arkansas Electric #77	11/7	381,000.00	12/31/17	12.070%	11.893% qtr.
*Continental Tele. of KY #47	11/8	1,500,000.00	11/8/85	10.915%	10.770% qtr.
*Basin Electric #87	11/9	374,000.00	11/9/86	11.235%	11.082% qtr.
*Western Illinois Power #162	11/9	2,702,000.00	11/9/85	10.915%	10.770% qtr.
*Western Illinois Power #99	11/9	1,943,000.00	11/9/86	11.235%	11.082% qtr.
Cajun Electric #180	11/9	8,974,000.00	11/9/85	10.915%	10.770% qtr.
*Wolverine Power #101	11/10	50,000.00	11/10/85	10.875%	10.731% qtr.
*Wolverine Power #183	11/10	3,447,000.00	11/10/85	10.875%	10.731% qtr.
*Colorado Ute Electric #168	11/10	13,500,000.00	11/10/85	10.875%	10.731% qtr.
Wolverine Power #101	11/10	210,000.00	11/10/85	10.875%	10.731% qtr.
Wolverine Power #234	11/10	3,944,000.00	11/10/85	10.875%	10.731% qtr.
Kansas Electric #216	11/10	825,000.00	12/31/85	10.925%	10.780% qtr.
*Wabash Valley Power #104	11/10	2,687,000.00	11/10/85	10.875%	10.731% qtr.
*Oglethorpe Power #74	11/12	13,625,000.00	11/12/85	10.755%	10.614% qtr.
*Oglethorpe Power #150	11/12	14,639,000.00	11/12/85	10.755%	10.614% qtr.
*Cajun Electric #197	11/13	40,000,000.00	11/13/85	10.755%	10.614% qtr.
*Brazos Electric #108	11/13	2,500,000.00	11/13/85	10.755%	10.614% qtr.
Wabash Valley Power #206	11/14	9,028,000.00	11/14/85	10.755%	10.614% qtr.
Deseret G&T #211	11/14	12,744,000.00	12/31/85	10.795%	10.653% qtr.
*Colorado Ute Electric #78	11/14	8,782,000.00	11/14/86	11.065%	10.916% qtr.
*Central Electric #131	11/15	170,000.00	11/15/85	10.735%	10.595% qtr.
New Hampshire Electric #192	11/15	1,185,000.00	11/15/85	10.735%	10.595% qtr.
East Kentucky Power #73	11/15	6,790,000.00	11/15/85	10.735%	10.595% qtr.
*East Kentucky Power #188	11/16	5,800,000.00	11/16/85	10.785%	10.643% qtr.
*Associated Electric #132	11/17	10,000,000.00	11/18/85	10.785%	10.643% qtr.
*Colorado Ute Electric #152	11/17	1,080,000.00	11/17/85	10.785%	10.643% qtr.
*East Kentucky Power #73	11/17	2,500,000.00	11/17/85	10.785%	10.643% qtr.
*Big Rivers Electric #58	11/20	1,590,000.00	12/31/85	10.835%	10.692% qtr.
*Big Rivers Electric #91	11/20	5,423,000.00	12/31/85	10.835%	10.692% qtr.
*Big Rivers Electric #91	11/20	416,000.00	12/31/85	10.835%	10.692% qtr.
*Big Rivers Electric #136	11/20	699,000.00	12/31/85	10.835%	10.692% qtr.
*Big Rivers Electric #136	11/20	73,000.00	12/31/85	10.835%	10.692% qtr.
*Big Rivers Electric #143	11/20	47,000.00	12/31/85	10.835%	10.692% qtr.
*Big Rivers Electric #179	11/20	19,939,000.00	12/31/85	10.835%	10.692% qtr.
Big Rivers Electric #136	11/21	155,000.00	12/31/85	10.835%	10.692% qtr.
Big Rivers Electric #143	11/21	94,000.00	12/31/85	10.835%	10.692% qtr.
Big Rivers Electric #179	11/21	2,695,000.00	12/31/85	10.835%	10.692% qtr.
San Miguel Electric #110	11/21	3,688,000.00	11/21/85	10.805%	10.663% qtr.
San Miguel Electric #205	11/21	4,600,000.00	11/21/85	10.805%	10.663% qtr.
*St. Joseph Telep. & Teleg. #13	11/21	677,000.00	11/21/85	10.805%	10.663% qtr.
South Mississippi Electric #3	11/23	5,385,000.00	12/31/85	10.736%	10.592% qtr.
Brazos Electric #230	11/23	1,788,000.00	11/23/85	10.735%	10.595% qtr.
Oglethorpe Power #246	11/23	13,388,000.00	11/23/85	10.735%	10.595% qtr.
North Carolina Electric #185	11/23	7,299,000.00	12/31/85	10.755%	10.614% qtr.
*Wabash Valley Power #206	11/23	694,000.00	11/23/85	10.735%	10.595% qtr.
*East River Electric #117	11/24	1,200,000.00	11/24/85	10.765%	10.624% qtr.
*North Carolina Electric #185	11/24	3,004,000.00	12/31/85	10.805%	10.663% qtr.
*Seminole Electric #141	11/25	2,469,000.00	11/25/85	10.765%	10.624% qtr.
*Sunflower Electric #174	11/25	15,000,000.00	11/25/85	10.765%	10.624% qtr.
*Associated Electric #132	11/26	14,200,000.00	11/26/85	10.755%	10.614% qtr.
South Mississippi Electric #3	11/28	1,906,000.00	12/31/85	10.767%	10.626% qtr.
*South Mississippi Electric #90	11/28	309,000.00	11/28/85	10.755%	10.614% qtr.
Colorado Ute Electric #168	11/29	1,053,000.00	11/29/85	10.815%	10.673% qtr.
*United Power #86	11/29	375,000.00	11/29/85	10.815%	10.673% qtr.
Corn Belt Power #138	11/30	162,000.00	11/30/85	10.775%	10.634% qtr.
Basin Electric #232	11/30	873,000.00	11/30/85	10.775%	10.634% qtr.
Kamo Electric #209	11/30	4,941,000.00	11/30/85	10.775%	10.634% qtr.
Seminole Electric #141	11/30	36,562,000.00	11/30/85	10.775%	10.634% qtr.
North Carolina Electric #185	11/30	1,395,000.00	12/31/85	10.805%	10.663% qtr.
Continental Tel. of South #106	11/30	10,900,000.00	12/31/17	11.786%	11.617% qtr.
*United Power #67	11/30	1,300,000.00	11/30/85	10.775%	10.634% qtr.
*United Power #129	11/30	3,000,000.00	11/30/85	10.775%	10.634% qtr.
*Basin Electric #87	11/30	295,000.00	11/30/86	11.045%	10.897% qtr.
*Basin Electric #88	11/30	169,000.00	11/30/85	10.775%	10.634% qtr.

*maturity extension

FEDERAL FINANCING BANK

NOVEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd.)					
*Dairyland Power #54	11/30	$ 1,187,000.00	11/30/85	10.775%	10.634% qtr.
*Arkansas Electric #97	11/30	5,910,000.00	12/31/13	11.808%	11.639% qtr.
*Southern Illinois Power #38	11/30	1,500,000.00	12/31/10	11.826%	10.656% qtr.
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
Butte Local Dev. Corp.	11/9	28,000.00	11/1/98	11.941%	
Atlanta Local Dev. Company	11/9	38,000.00	11/1/98	11.941%	
Columbus Countywide Dev. Corp.	11/9	53,000.00	11/1/98	11.941%	
Oconee Area Dev. Corp.	11/9	53,000.00	11/1/98	11.941%	
S.W. Michigan Dev. Co., Inc.	11/9	57,000.00	11/1/98	11.941%	
E.C.I.A. Bus. Growth, Inc.	11/9	58,000.00	11/1/98	11.941%	
Toledo Econ. Plan. Council, Inc.	11/9	61,000.00	11/1/98	11.941%	
Birmingham Citywide L.D.C.	11/9	62,000.00	11/1/98	11.941%	
Pecan Valley Econ. Dev. District	11/9	63,000.00	11/1/98	11.941%	
Cleveland Area Development Corp.	11/9	68,000.00	11/1/98	11.941%	
N.E. Missouri Certified Dev. Co.	11/9	76,000.00	11/1/98	11.941%	
Coastal Area Dis. Dev. Auth., Inc	11/9	89,000.00	11/1/98	11.941%	
Los Medanos Fund	11/9	120,000.00	11/1/98	11.941%	
Toledo Econ. Plan. Council, Inc.	11/9	126,000.00	11/1/98	11.941%	
Siouxland Econ. Dev. Corp.	11/9	133,000.00	11/1/98	11.941%	
Rosedale Association Inc.	11/9	147,000.00	11/1/98	11.941%	
Ozark Gateway Development, Inc.	11/9	182,000.00	11/1/98	11.941%	
Middle Flint Area Dev. Corp.	11/9	186,000.00	11/1/98	11.941%	
Iowa Business Growth Co.	11/9	250,000.00	11/1/98	11.941%	
Bay Colony Development Corp.	11/9	294,000.00	11/1/98	11.941%	
Illinois Sm. Bus. Growth Corp.	11/9	363,000.00	11/1/98	11.941%	
Faribault Industrial Corp.	11/9	51,000.00	11/1/03	12.055%	
Greater Kenosha Development Corp.	11/9	51,000.00	11/1/03	12.055%	
Wisconsin Bus. Dev. Finance Corp.	11/9	55,000.00	11/1/03	12.055%	
Beverly Area Local Dev. Corp.	11/9	64,000.00	11/1/03	12.055%	
Granite State Econ. Dev. Corp.	11/9	72,000.00	11/1/03	12.055%	
Birmingham Citywide L.D.C.	11/9	81,000.00	11/1/03	12.055%	
Pecan Valley Econ. Dev. Corp.	11/9	83,000.00	11/1/03	12.055%	
Greater Gratiot Development Inc.	11/9	84,000.00	11/1/03	12.055%	
Columbus Local Dev. Corp.	11/9	88,000.00	11/1/03	12.055%	
S.W. Michigan Dev. Company, Inc.	11/9	88,000.00	11/1/03	12.055%	
Columbus Countywide Dev. Corp.	11/9	93,000.00	11/1/03	12.055%	
St. Louis Local Dev. Company	11/9	100,000.00	11/1/03	12.055%	
N. Puerto Rico L.D.C., Inc.	11/9	105,000.00	11/1/03	12.055%	
Long Island Development Corp.	11/9	120,000.00	11/1/03	12.055%	
Metro. Growth & Dev. Corp.	11/9	126,000.00	11/1/03	12.055%	
Cert. Dev. Corp. of Warren County	11/9	127,000.00	11/1/03	12.055%	
N. Puerto Rico L.D.C., Inc.	11/9	137,000.00	11/1/03	12.055%	
Toledo Econ. Planning Council Inc	11/9	137,000.00	11/1/03	12.055%	
S. Shore Econ. Dev. Corp.	11/9	151,000.00	11/1/03	12.055%	
Wisconsin Bus. Dev. Finance Corp.	11/9	158,000.00	11/1/03	12.055%	
St. Louis County L.D.C.	11/9	206,000.00	11/1/03	12.055%	
Birmingham Citywide L.D.C.	11/9	212,000.00	11/1/03	12.055%	
Long Island Development Corp.	11/9	220,000.00	11/1/03	12.055%	
Greater Kenosha Development Corp.	11/9	220,000.00	11/1/03	12.055%	
Middle Flint Area Dev. Corp.	11/9	235,000.00	11/1/03	12.055%	
Rural Enterprises Dev. Corp.	11/9	254,000.00	11/1/03	12.055%	
Wisconsin Bus. Dev. Fin. Corp.	11/9	331,000.00	11/1/03	12.055%	
Houston-Galveston Area L.D.C.	11/9	374,000.00	11/1/03	12.055%	
Barren River Area Dev. Dis., Inc.	11/9	388,000.00	11/1/03	12.055%	
Arizona Enterprise Dev. Corp.	11/9	500,000.00	11/1/03	12.055%	
Commonwealth Sm. Bus. Dev. Corp.	11/9	500,000.00	11/1/03	12.055%	
Jacksonville Local Dev. Corp.	11/9	500,000.00	11/1/03	12.055%	
Urban Business Development Corp.	11/9	47,000.00	11/1/08	12.099%	
Uniform Reg. Nine Cert. Dev. Corp	11/9	61,000.00	11/1/08	12.099%	
Columbus Countywide Dev. Company	11/9	63,000.00	11/1/08	12.099%	
Central Ozarks Development, Inc.	11/9	66,000.00	11/1/08	12.099%	
Ark-Tex Regional Dev. Co., Inc.	11/9	71,000.00	11/1/08	12.099%	
Miami Citywide Development, Inc.	11/9	72,000.00	11/1/08	12.099%	

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FEDERAL FINANCING BANK

NOVEMBER 1983 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
State & Local Development Company Debentures (Cont'd)					
Columbus Countywide Dev. Corp.	11/9	$ 84,000.00	11/1/08	12.099%	
Bay Area Business Dev. Co.	11/9	99,000.00	11/1/08	12.099%	
Bay Area Business Dev. Co.	11/9	103,000.00	11/1/08	12.099%	
Bay Area Employment Dev. Co.	11/9	133,000.00	11/1/08	12.099%	
Los Medanos Fund	11/9	152,000.00	11/1/08	12.099%	
N. Texas Certified Dev. Corp.	11/9	176,000.00	11/1/08	12.099%	
Columbus Countywide Dev. Corp.	11/9	179,000.00	11/1/08	12.099%	
Ocean State Bus. Dev. Auth., Inc.	11/9	246,000.00	11/1/08	12.099%	
Commonwealth Sm. Bus. Dev. Corp.	11/9	304,000.00	11/1/08	12.099%	
Bay Colony Development Corp.	11/9	339,000.00	11/1/08	12.099%	
Bay Area Bus. Dev. Co.	11/9	357,000.00	11/1/08	12.099%	
Bay Colony Development Corp.	11/9	462,000.00	11/1/08	12.099%	
Gulf Regional Financial Corp.	11/9	498,000.00	11/1/08	12.099%	
San Diego County L.D.C.	11/9	500,000.00	11/1/08	12.099%	
Columbus Countywide Dev. Corp.	11/9	500,000.00	11/1/08	12.099%	
Small Business Investment Company Debentures					
AMEV Capital Corp.	11/23	3,000,000.00	11/1/88	11.505%	
Miami Valley Capital, Inc.	11/23	750,000.00	11/1/90	11.705%	
BT Capital Corp.	11/23	3,000,000.00	11/1/93	11.775%	
Enterprise Capital Corp.	11/23	1,500,000.00	11/1/93	11.775%	
First Midwest Capital Corp.	11/23	500,000.00	11/1/93	11.775%	
Hamco Capital Corp.	11/23	1,000,000.00	11/1/93	11.775%	
Seafirst Capital Corp.	11/23	1,500,000.00	11/1/93	11.775%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-84-2	11/30	589,305,662.98	2/29/84	9.375%	

FEDERAL FINANCING BANK
November 1983 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Jordan	DOD	$ 25,000,000.00	11/14/85	11/15/92
Panama	DOD	5,000,000.00	11/25/85	11/25/93
Tunisia	DOD	35,000,000.00	11/14/85	11/15/95
Turkey	DOD	140,000,000.00	11/29/85	11/30/13
Baldwin Park, CA	HUD	1,708,000.00	10/1/84	10/1/84
Mayaguez, PR	HUD	1,066,330.00	8/1/84	8/1/84
Somerville, MA	HUD	1,763,500.00	5/1/85	5/1/85
Toledo, OH	HUD	1,268,000.00	8/15/84	8/15/03
Hialeah, FL	HUD	4,655,000.00	12/1/84	12/1/84
Planned Ind. Exp. Authority	HUD	2,386,000.00	11/15/84	1/15/03
Albany Ind. Development Agency	HUD	640,000.00	7/1/85	7/1/85
New Haven, CT	HUD	1,477,500.00	9/1/84	9/1/03

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	November 30, 1983	October 31, 1983	Net Change 11/1/83-11/30/83	Net Change—FY 1984 10/1/83-11/30/83
On-Budget Agency Debt				
Tennessee Valley Authority	$ 13,220.0	$ 13,175.0	$ 45.0	$ 105.0
Export-Import Bank	14,675.9	14,675.9	-0-	-0-
NCUA-Central Liquidity Facility	34.6	36.6	-2.0	-9.6
Off-Budget Agency Debt				
U.S. Postal Service	1,154.0	1,154.0	-0-	-0-
U.S. Railway Association	107.8	124.7	-17.0	-17.0
Agency Assets				
Farmers Home Administration	55,916.0	55,916.0	-0-	-775.0
DHHS-Health Maintenance Org.	118.8	118.8	-0-	-0-
DHHS-Medical Facilities	143.8	143.7	0.1	0.1
Overseas Private Investment Corp.	16.3	16.3	-0-	-0-
Rural Electrification Admin.-CBO	3,467.5	3,467.5	-0-	-0-
Small Business Administration	47.4	47.9	-0.5	-1.1
Government-Guaranteed Lending				
DOD-Foreign Military Sales	14,732.4	14,395.9	336.5	439.0
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loans Guarantees	45.0	45.0	-0-	-0-
DOE-Non-Nuclear Act (Great Plains)	958.0	927.0	31.0	72.5
DHUD-Community Dev. Block Grant	181.5	180.2	1.3	4.2
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,162.3	2,150.9	11.5	95.5
General Services Administration	416.8	417.3	-0.5	-0.5
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	29.1	29.1	-0-	-0-
NASA-Space Communications Co.	846.9	838.7	8.2	-100.3
DON-Defense Production Act	1.4	1.2	0.2	0.3
Rural Electrification Admin.	19,216.2	19,092.8	123.5	277.3
SBA-Small Business Investment Cos.	814.6	816.8	-2.2	10.3
SBA-State/Local Development Cos.	172.9	160.6	12.3	25.2
TVA-Seven States Energy Corp.	1,455.5	1,437.3	18.2	37.0
DOT-Amtrak	-0-	-0-	-0-	-880.0
DOT-Section 511	180.0	183.0	-3.0	-3.6
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 135,361.2	$ 134,798.8	$ 562.4	-$ 720.6

*figures may not total due to rounding

TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 22, 1983

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $8,252 million of 52-week bills to be issued December 29, 1983, and to mature December 27, 1984, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	9.20%	10.06%	90.698
High -	9.25%	10.12%	90.647
Average -	9.23%	10.10%	90.667

Tenders at the high discount rate were allotted 2%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 123,735	$ 33,935
New York	15,652,175	7,565,275
Philadelphia	9,565	9,565
Cleveland	28,120	20,220
Richmond	120,175	23,915
Atlanta	45,400	45,400
Chicago	1,028,940	247,460
St. Louis	82,435	53,495
Minneapolis	16,910	15,930
Kansas City	47,160	41,085
Dallas	15,975	15,975
San Francisco	872,620	142,620
Treasury	37,475	37,475
TOTALS	$18,080,685	$8,252,350
Type		
Competitive	$16,078,905	$6,250,570
Noncompetitive	391,780	391,780
Subtotal, Public	$16,470,685	$6,642,350
Federal Reserve	1,500,000	1,500,000
Foreign Official Institutions	110,000	110,000
TOTALS	$18,080,685	$8,252,350

R-2471

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 23, 1983

CONTACT: CHARLES POWERS
(202) 566-2041

TREASURY DEPARTMENT AND NETHERLANDS ANTILLES ISSUE JOINT STATEMENT ON RENEGOTIATION OF INCOME TAX TREATY

Assistant Secretary John E. Chapoton, of the U.S. Treasury Department, and Minister of Finance Gilbert De Paula, Jr., of the Netherlands Antilles, announced today that they met in Washington the week of December 19 to review the progress of the technical exchanges which have been taking place since the summer in connection with the negotiation of a new income tax treaty between the Netherlands Antilles and the United States. They concluded that much progress has been made but that it had not been possible to reach agreement before year end. They will continue to negotiate with a view to reaching agreement early next year, if possible during January.

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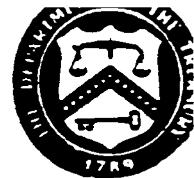
R-2472

TREASURY NEWS



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

STATEMENT BY
DONALD T. REGAN
SECRETARY OF THE TREASURY
ON THE
RECOMMENDATIONS ADOPTED BY THE
TASK GROUP ON REGULATION OF FINANCIAL SERVICES

DECEMBER 22, 1983

The recommendations agreed upon this afternoon by the task group, represent a major step forward toward our goal of simplifying bank regulations and reducing wasteful duplication and unnecesary regulation. Consumers, government, and the financial services industry -- will all be better served by a less complex structure. And that, after all, is what deregulation and reform is meant to accomplish.

Today's meeting was an important step. We are to meet again in January to continue the progress we made today.

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PRESS RELEASE

THE VICE PRESIDENT

OFFICE OF THE PRESS SECRETARY

For Immediate Release
6 p.m., Thursday, December 22, 1983

Contact: Meredith Armstrong
202/456-6770

The Task Group on Regulation of Financial Services, chaired by Vice President George Bush with Treasury Secretary Donald Regan as Vice-Chairman, today endorsed a package of approximately 30 specific recommendations for legislation to improve the current system of federal regulation of financial services. The group met at the residence of the Vice President for three hours, and adopted these recommendations following discussion of the Task Group's staff report.

The recommendations adopted by the Task Group cover several major issue categories. These include (1) eligibility for regulation as a thrift institution, (2) reform of the federal deposit insurance system, (3) federal duplication of state regulatory activities, and (4) increased functional regulation and elimination of unnecessary regulatory controls. The attached fact sheet summarizes some of the major changes which would be effected under the Task Group recommendations.

The Task Group did not schedule issues concerning reorganization of the three federal agencies which regulate commercial banks for today's meeting. Action will be taken with respect to consolidation and reorganization of these agencies at the Task Group's next meeting which will be scheduled early in January. The members of the Task Group include: the Secretary of the Treasury, 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 Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Securities and Exchange Commission, the Commodity Futures Trading Commission and National Credit Union Administration, and the Comptroller of the Currency.

Upon completion of the Task Group's work at its next meeting, the recommendations of the Task Group will be forwarded through the Cabinet Council on Economic Affairs to President Reagan for his consideration. Upon review by the President the approved package will be forwarded by the Administration to the Congress as proposed legislation. The Task Group expects to announce all its other specific recommendations following completion of its next meeting.

FACT SHEET

Summary of Major Recommendations Adopted by the Task Group on Regulation of Financial Services December 22, 1983

1. Eligibility For Regulation As A Thrift Institution

Under the current system, any institution with a thrift charter is eligible to be regulated by the Federal Home Loan Bank Board. The thrift regulatory system includes a number of regulatory advantages designed to encourage institutions to specialize in traditional thrift activities. However, in recent years thrift institutions have received authority to engage in a broader spectrum of activities, with no corresponding minimum participation required for housing and other traditional activities. In addition, commercial banks which have an equal level of participation in mortgage lending and other thrift activities are not entitled under the current system to obtain any of the regulatory treatment available for thrift institutions.

Under the recommendations adopted by the Task Group, eligibility for thrift regulation will be based on an institution's functional activities in the marketplace rather than its type of charter. To be eligible for thrift regulation, an institution would be required to maintain a minimum percentage of its overall assets in activities relating to residential housing finance. Both banks and thrift institutions which satisfy the "Portfolio Test" proposed by the Task Group would be eligible for regulation by the Federal Home Loan Bank Board. All such institutions would obtain deposit insurance from the FSLIC and would be governed by all rules and regulations applicable to thrift institutions.

Except for the smallest institutions, any thrift institution which failed to satisfy the Portfolio Test over an averaging period would be subject to all rules and regulations applicable to commercial banks and would become regulated by a bank regulatory agency.

2. Reform of the Federal Deposit Insurance System

Under the current system there are three separate federal deposit insurance agencies. Although banks and thrifts compete directly for deposits from the general public, at present thrifts are required to maintain significantly lower minimum capital than banks. In addition, deposit insurance premiums are assessed today on a flat rate basis with no differences in the premium paid by a financially strong or weak firm. Finally, large deposits in excess of federal insurance coverage (more than $100,000 per account) are fully protected in many bank failures

if the failed institution is merged with a healthy institution. In such a situation, even though such deposits are uninsured, the practical result is usually that such deposits do not bear a share of the cost of handling the failure.

Under the Task Group's recommendations, the separate insurance funds existing today would continue to be maintained. However, the insurance funds for banks and thrifts would be required to establish and implement over a phased period common minimum capital rules and accounting standards in order to encourage stronger capital backing for all insured institutions. In addition, under the Task Group's recommendations the deposit insurance agencies would be authorized to vary deposit insurance premiums based on the riskiness of insured institutions. However, the deposit insurance agencies would be required to rely on private sector ratings of riskiness to the extent feasible. Finally, the current _de facto_ full insurance coverage for large jumbo deposits in failed banks which are merged with healthy institutions would be reduced over time.

3. Federal Duplication of State Regulatory Activities

Under the dual banking system, both the states and federal agencies charter and regulate depository institutions. At present, federal bank regulators supervise all state chartered banks, irrespective of the quality of state supervisory authorities which also regulate such institutions. The federal agencies also review decisions by state regulatory agencies on a variety of matters not directly related to bank solvency.

The Task Group adopted recommendations to strengthen the responsibilities of state regulatory agencies over state chartered institutions. In states which maintain strong regulatory programs, federal oversight would be reduced substantially from current levels. In other states, federal agencies would alternate their activities with those of state regulators in order to reduce wherever possible duplication between federal and state agencies.

4. Increased Functional Regulation and Elimination of Unnecessary Regulatory Controls

Under the current system four agencies plus the SEC regulate the securities activities of banks and thrifts. Four agencies plus the Department of Justice also enforce the antitrust laws applicable to banks and thrifts. In addition, federal controls remain over the number of activities such as the location of bank branches which have become outdated.

The recommendations adopted by the Task Group would consolidate all securities regulation applicable to banks and thrifts in the SEC. Likewise, all antitrust responsibilities would be centralized in the Department of Justice. In addition, the Task Group recommended reduction or elimination of a variety of outdated or unnecessary regulatory controls.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 27, 1983

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TREASURY ANNOUNCES RELEASE OF TECHNICAL EXPLANATION OF PROPOSED ESTATE AND GIFT TAX TREATY BETWEEN THE UNITED STATES AND SWEDEN

The United States Treasury Department announced today that it has released its technical explanation of the proposed estate and gift tax treaty between the United States and Sweden. The technical explanation reflects policies behind the various provisions of the proposed treaty, as well as understandings reached with respect to the interpretation of certain of those provisions.

The proposed estate and gift tax treaty, which would be the first of its kind between the United States and Sweden, was signed in Stockholm on June 13, 1983, by representatives of the two nations. The treaty was transmitted by the President to the United States Senate on November 7, 1983, for their consideration and consent to ratification.

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R-2473

TECHNICAL EXPLANATION OF THE CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF SWEDEN FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON ESTATES, INHERITANCES, AND GIFTS SIGNED IN STOCKHOLM

Introduction

This technical explanation is an official guide to the estate and gift tax convention between the Government of the United States and the Government of Sweden signed on June 13, 1983, in Stockholm ("the Convention"). It reflects policies behind particular Convention provisions, as well as understandings reached with respect to the interpretation and application of the Convention.

The proposed estate and gift tax Convention with Sweden would be the first of its kind between the two countries. It would apply, in the United States, to the Federal estate tax, the Federal gift tax and the Federal tax on generation-skipping transfers and, in Sweden, to the inheritance tax and the gift tax.

The proposed Convention with Sweden is similar in principle to the United States estate and gift tax convention with the United Kingdom, which entered into force November 11, 1979, to the estate and gift tax convention with France,

which entered into force October 1, 1980, and to the estate and gift tax convention with Austria, which entered into force July 1, 1983. It is also similar to the U.S. model estate and gift tax convention published by the Treasury Department on December 8, 1980. The details of some provisions of the proposed Convention, however, differ from those in the afore-mentioned conventions.

The general principle of the proposed Convention with Sweden is that the country of the transferor's domicile may tax transfers of estates and gifts ("transfers") and generation-skipping transfers ("deemed transfers") on a worldwide basis, but that it must credit the tax paid to the other Contracting State with respect to specified types of property taxable on a situs basis (*i.e.*, real property and certain business assets). The Convention also allows each Contracting State to tax transfers and deemed transfers of its citizens, provided a credit is given for tax paid to the other Contracting State.

Article 1. SCOPE

This article defines the coverage of the Convention. Paragraph 1 provides that the Convention applies to transfers of estates, gifts, and generation-skipping transfers of individuals domiciled in one or both of the Contracting States at the time of transfer or deemed transfer.

Paragraph 2 states that the Convention does not restrict the fiscal benefits accorded by the laws of either Contracting State or by other agreements between the Contracting States. This rule reflects the principle that a double taxation Convention should not increase the tax burden imposed by the domestic law of a Contracting State.

Paragraph 3 allows a Contracting State to tax transfers and deemed transfers of its domiciliaries and of its citizens under its own domestic laws as if the Convention did not exist. This "saving" clause applies only to domiciliaries as determined by Article 4 (Fiscal Domicile) of the Convention. It does not apply, for example, to give the United States the right to tax an individual, not a U.S. citizen, who satisfies the U.S. statutory tests for domicile but who is determined under the rules of Article 4 to be a domiciliary of Sweden. In that case, the United States can only tax on the basis of the situs of certain types of property specified in the Convention.

For purposes of the saving clause, the term "citizen" includes, for a 10-year period, a former citizen who has renounced his citizenship for a principal purpose of tax avoidance. This provision is intended to cause the application of sections 877, 2107, and 2501(a)(3) of the Internal Revenue Code in this context.

Paragraph 4 limits the scope of the saving clause of paragraph 3. For example, it ensures that the saving clause will not override the obligation of a Contracting State, in accordance with Article 9 (Relief From Double Taxation), to credit taxes paid to the other Contracting State on either a domiciliary or a situs basis.

Paragraph 4 also provides that paragraph 3 shall not affect the benefits relating to exemptions for contributions to charitable organizations which are conferred by a Contracting State upon its citizens or domiciliaries under paragraph 7 of Article 8 (Deductions and Exemptions), or the benefits conferred under Articles 10 (Non-Discrimination) or 11 (Mutual Agreement Procedure). Nor does the

saving clause affect the benefits conferred by the United States under paragraph 1 of Article 13 (Diplomatic Agents and Consular Officers) upon individuals who neither are citizens of, nor have immigrant status in, the United States or the benefits conferred by Sweden under that paragraph upon individuals who are not citizens of Sweden.

Article 2. TAXES COVERED

Paragraph 1 identifies the taxes which exist at the time of signature and which are covered by the Convention. In the case of Sweden, the Convention applies to the inheritance tax and the gift tax. With respect to the United States, the Convention applies to the Federal estate tax, the Federal gift tax, and the Federal tax on generation-skipping transfers. A generation-skipping transfer involves the splitting of benefits between generations younger than the generation of the transferor or grantor. If, for example, _A_ transfers property to _B_ for 10 years or for _B_'s life, and after 10 years or upon _B_'s death the property passes to _C_, and _B_ and _C_ are in younger generations than _A_, but different generations from each other, the United States will impose an estate or gift tax on the transfer from _A_ and a generation-skipping tax on the transfer from _B_. The generation-skipping tax is substantially equivalent to the amount of the estate or gift tax that would be due if the property interest had been transferred outright from each generation to the next.

To avoid the necessity of concluding a new convention whenever the tax laws of the United States or Sweden are modified, paragraph 2 provides that the Convention also applies to any identical or substantially similar taxes which are imposed after the date of signature of the Convention in

addition to, or in place of, the existing taxes. The competent authorities of the Contracting States are to notify each other of any substantial changes in their respective laws relating to the taxation of estates, gifts, inheritances, and generation-skipping transfers and of any official published interpretations of the Convention of substantial significance.

Paragraph 3 broadens the coverage of the Convention to include, for purposes of Article 10 (Non-discrimination), all taxes imposed by a Contracting State or a political subdivision or local authority thereof and, for purposes of Article 12 (Exchange of Information), all taxes imposed by a Contracting State.

Article 3. GENERAL DEFINITIONS

Paragraph 1 defines the terms "United States," "Sweden," "Contracting State," "other Contracting State," "international traffic" and "competent authority."

The term "United States" means the United States of America, but does not include Puerto Rico, the Virgin Islands, Guam, or any other U.S. possession or territory. It includes the territorial sea of the United States and the seabed and subsoil of the submarine areas adjacent to the coast of the United States, but beyond the territorial sea, over which the United States exercises sovereign rights in accordance with international law for the purposes of exploration and exploitation of natural resources of such areas.

Paragraph 1 does not contain all the terms defined in the Convention. "Domicile," for example, is defined in Article 4 (Fiscal Domicile), "real property" is defined in Article 5 (Real Property), and "permanent establishment" is defined in Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services).

Paragraph 2 provides that, unless the context otherwise requires and subject to the provisions of Article 11 (Mutual Agreement Procedure), any term not otherwise defined in the Convention shall have the meaning which it has under the tax laws of the Contracting State whose tax is being determined. Paragraph 3 of Article 11 (Mutual Agreement Procedure) makes clear that the competent authorities of the Contracting States may agree on a common meaning of any term used in the Convention.

Article 4. FISCAL DOMICILE

This Article provides rules for determining an individual's domicile for purposes of the Convention and establishes rules for resolving cases of dual domicile. The determination of a single domicile for purposes of the Convention is important since the State of domicile has the primary right to tax transfers and deemed transfers of property wherever located, except property covered by Article 5 (Real Property) or Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services). This primary right is not exclusive, however, because the saving clause of paragraph 3 of Article 1 (Scope) allows a Contracting State to tax in all events on the basis of

citizenship, provided it allows a credit against the tax imposed by the other State on a domiciliary or situs basis.

Under paragraph 1, domicile is determined initially under the domestic law of each Contracting State. That law is taken as given, and the Convention does not modify the criteria used by a Contracting State for its determination of domicile. Subparagraph 1a) provides that an individual is domiciled in the United States, for purposes of the Convention, if he is a resident or citizen of the United States. For this purpose, a resident is an individual living in the United States who has the intention to remain in the United States indefinitely or an individual who has lived in the United States with such an intention and who has not formed the intention to remain indefinitely in another country. This definition of the term "resident" should be distinguished from the definition of the same term for purposes of the Federal income tax. For income tax purposes, an alien present in the United States who is not a mere transient or sojourner is a resident of the United States. Citizens are included in the definition of domiciliary for the purpose of the Convention because the United States taxes its citizens, as well as its residents, on a worldwide basis, and nonresident U.S. citizens may encounter some of the same problems of double taxation that face U.S. residents.

Subparagraph 1b) provides that an individual is domiciled in Sweden if he is a resident or citizen thereof under Swedish law.

Paragraph 2 provides rules for resolving cases where, under the domestic laws of the respective Contracting States, an individual is domiciled in both States. Under paragraph 2, a single domicile is determined according to the following

sequential criteria: (a) the individual will be deemed to be domiciled in the Contracting State in which he maintained his permanent home; if he had a permanent home in both Contracting States, his domicile will be deemed to be in the Contracting State with which his personal and economic relations were closer (in other words, the State in which his center of vital interests was located); (b) if the Contracting State in which the individual's center of vital interests was located cannot be determined, or if he had no permanent home available in either State, his domicile will be deemed to be in the Contracting State in which he had an habitual abode; (c) if he had an habitual abode in both or in neither Contracting States, his domicile will be deemed to be in the Contracting State of which he was a citizen; and (d) if he was a citizen of both or of neither Contracting States, the competent authorities of the Contracting States shall settle the question by mutual agreement. The determination of a center of vital interests for purposes of subparagraphs 2a) and 2b) is made on a relative basis between the two Contracting States. Thus, a center of vital interests as between the United States and Sweden may be identified, even if an individual has still closer personal and economic relations with a third State.

Paragraph 3 of the Convention contains an important exception to the tie-breaking rules of paragraph 2. It applies where an individual was: (a) a citizen of one, but not the other, Contracting State; (b) a domiciliary of both States within the meaning of paragraph 1; and (c) domiciled in the Contracting State of which he was not a citizen for less than five years (including periods of temporary absence) of the preceding seven years. If all these conditions are met, the individual is deemed to be domiciled in the State of which he was a citizen. The five out of seven year rule is

based on the concept that a Contracting State should not tax the transfers or deemed transfers of an individual on a domiciliary basis if the individual is a citizen of the other Contracting State and has not been present in the first State for a significant period of time. According to the Convention, a significant period of time is five years or more (including periods of temporary absence) out of the preceding seven years. If the individual has been domiciled in the State of which he was not a citizen for five or more years out of the relevant seven year period, he is not necessarily deemed to be domiciled in that State for purposes of the Convention. Domicile would then be determined under the tie-breaking rules of paragraph 2.

Paragraph 4 provides that an individual who, at the time of death or the making of a gift or deemed transfer, was a resident of a U.S. possession and who had become a U.S. citizen solely by reason of citizenship of, or birth or residence in, a possession, shall not be considered domiciled in or a citizen of the United States at that time for purposes of the Convention. This exclusion conforms with sections 2209 and 2501(c) of the Internal Revenue Code. This paragraph does not apply to a former resident of a possession who acquired U.S. citizenship through birth in a possession, but who otherwise established a domicile in one of the Contracting States at the time of transfer or deemed transfer; nor would it apply to an individual who acquired his U.S. citizenship through birth in a possession, but who was domiciled at the time of transfer or deemed transfer in a third state.

Article 5. REAL PROPERTY

Paragraph 1 provides that transfers and deemed transfers by an individual domiciled in a Contracting State of real property situated in the other Contracting State may be taxed by that other State. This is a primary, but not an exclusive, taxing right. As provided in paragraph 3 of Article 1 (Scope), either State may tax property covered by Article 5 (Real Property) on a domiciliary basis or on the basis of citizenship. However, such State must comply with the terms of paragraphs 1 or 2 of Article 9 (Relief from Double Taxation) to avoid double taxation (*i.e.*, by granting a credit with respect to real property taxed on a situs basis in the other State).

Paragraph 2 provides that the term "real property" is defined in accordance with the law of the Contracting State in which the property is situated. The term in any case includes property accessory to real property, livestock, equipment used in agriculture and forestry, and rights to payment for the working of mineral deposits and other natural resources. Ships, boats and aircraft are not considered real property. Although the Convention does not explicitly say so, debts secured by a mortgage or similar preferential right are not to be treated as real property. Such debts are to be treated as movable property and are covered by the general rule of Article 7 (Property Not Expressly Mentioned), unless Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services) applies.

Article 6. BUSINESS PROPERTY OF A PERMANENT ESTABLISHMENT AND ASSETS PERTAINING TO A FIXED BASE USED FOR THE PERFORMANCE OF INDEPENDENT PERSONAL SERVICES

Paragraph 1 establishes the primary taxing right for assets forming part of the business property of a permanent establishment. It provides that, except for assets defined in paragraph 2 of Article 5 (Real Property), transfers or deemed transfers of assets of an enterprise by an individual domiciled in a Contracting State, which assets form part of the business property of a permanent establishment situated in the other Contracting State, may be taxed in that other State. The exception for assets referred to in Article 5 (Real Property) applies to all real property, wherever located. Thus, for example, the United States would have the primary right to tax the transfer by a U.S. domiciliary of real property located in the United States (or in a third country) even though such real property forms part of the business property of a permanent establishment situated in Sweden.

Securities, provided they form part of the business property employed in a permanent establishment, are covered by this Article. Similarly, patents and trademarks owned by an individual, but constituting business property of a permanent establishment, are taxable under this Article.

As is also the case with Article 5 (Real Property), Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services) does not grant an exclusive taxing right to the situs State. For instance, the United States may tax the transfer or deemed transfer by a U.S. citizen of Swedish-situs business property by virtue of the saving clause of paragraph 3 of Article 1 (Scope).

Paragraph 2 defines the term "permanent establishment" as a fixed place of business through which the business of an enterprise is wholly or partly carried on. Illustrations of a permanent establishment are provided in paragraph 3. They include a place of management, a branch, an office, a factory, a workshop, and a mine, oil or gas well, a quarry, or any other place of extraction of natural resources.

Paragraph 4 states that a building site or construction or installation project, or an installation or drilling rig or ship being used for the exploration or development of natural resources, constitutes a permanent establishment only if it has remained in that State for more than twelve months. This twelve-month period begins when work physically commences in the Contracting State and ends with the date of transfer or deemed transfer. It must be fulfilled on a consecutive-month basis. A series of contracts or projects which are interdependent commercially is to be treated as a single project for the purpose of applying the twelve-month test. The twelve-month test will not be fulfilled if the assets in question are transferred or are deemed to be transferred before the twelve months have elapsed, even if it appeared at the time of transfer or deemed transfer that the project would have lasted more than twelve months.

Paragraph 5 lists examples of activities that will not constitute a permanent establishment, even if conducted through a fixed place of business. The paragraph provides that a permanent establishment does not include: the use of facilities solely for the purpose of storage, display, or delivery of goods or merchandise belonging to an enterprise; the maintenance of a stock of goods or merchandise belonging to an enterprise solely for the purpose of storage, display, or delivery; the maintenance of a stock of goods or

merchandise belonging to an enterprise solely for the purpose of processing by another enterprise; the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for an enterprise; the maintenance of a fixed place of business solely for the purpose of carrying on for an enterprise any other activity of a preparatory or auxiliary character; or the maintenance of a fixed place of business solely for any combination of the above activities.

Paragraph 6 provides that, except for assets referred to in paragraph 2 of Article 5 (Real Property), transfers and deemed transfers of property by an individual domiciled in a Contracting State, which property pertains to a fixed base situated in the other Contracting State and which is used for the performance of independent personal services, may be taxed in that other State. The concept of a "fixed base" is analogous to that of a "permanent establishment."

Article 7. PROPERTY NOT EXPRESSLY MENTIONED

Pursuant to this Article, transfers or deemed transfers of property which are not subject to the operative provisions of Article 5 (Real Property) or 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services) shall, subject to the saving clause of paragraph 3 of Article 1 (Scope), be taxable only by the Contracting State in which the individual making the transfer or deemed transfer is domiciled. Under this Article, for example, Sweden has the primary right to tax shares of stock in a U.S. corporation which form part of the estate of a decedent domiciled in Sweden but which do not form part of the business property of

a permanent establishment in the United States. If the decedent is a U.S. citizen, the United States also would be able to tax those shares under paragraph 3 of Article 1 (Scope), provided the United States allows a credit for the Swedish tax imposed on the shares. Similarly, Sweden would have the primary right to tax real property situated in a third state which was owned by a decedent domiciled in Sweden since the transfer of such property would not be subject to the operative provisions of Article 5 (Real Property).

Paragraph 2 applies to the case where one State considers a property right as covered by Article 5 (Real Property) or Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services), but the other State treats that right as an interest in a partnership or trust governed by paragraph 1. Such cases could result in either double taxation or double exemption. Paragraph 2 resolves the issue by determining the nature of the right under the law of the State in which the transferor or deemed transferor is not domiciled.

Article 8. DEDUCTIONS AND EXEMPTIONS

Paragraph 1 provides rules for property taxable only in accordance with Article 5 (Real Property) (*i.e.*, real property which is located in one Contracting State and which is transferred or deemed transferred by a person domiciled in the other Contracting State). Thus, the paragraph 1 rules are relevant only for property taxable on a situs basis and specify the deductions which the situs State must allow. These rules provide that debts incurred for the acquisition, conversion, repair, or upkeep of property referred to in

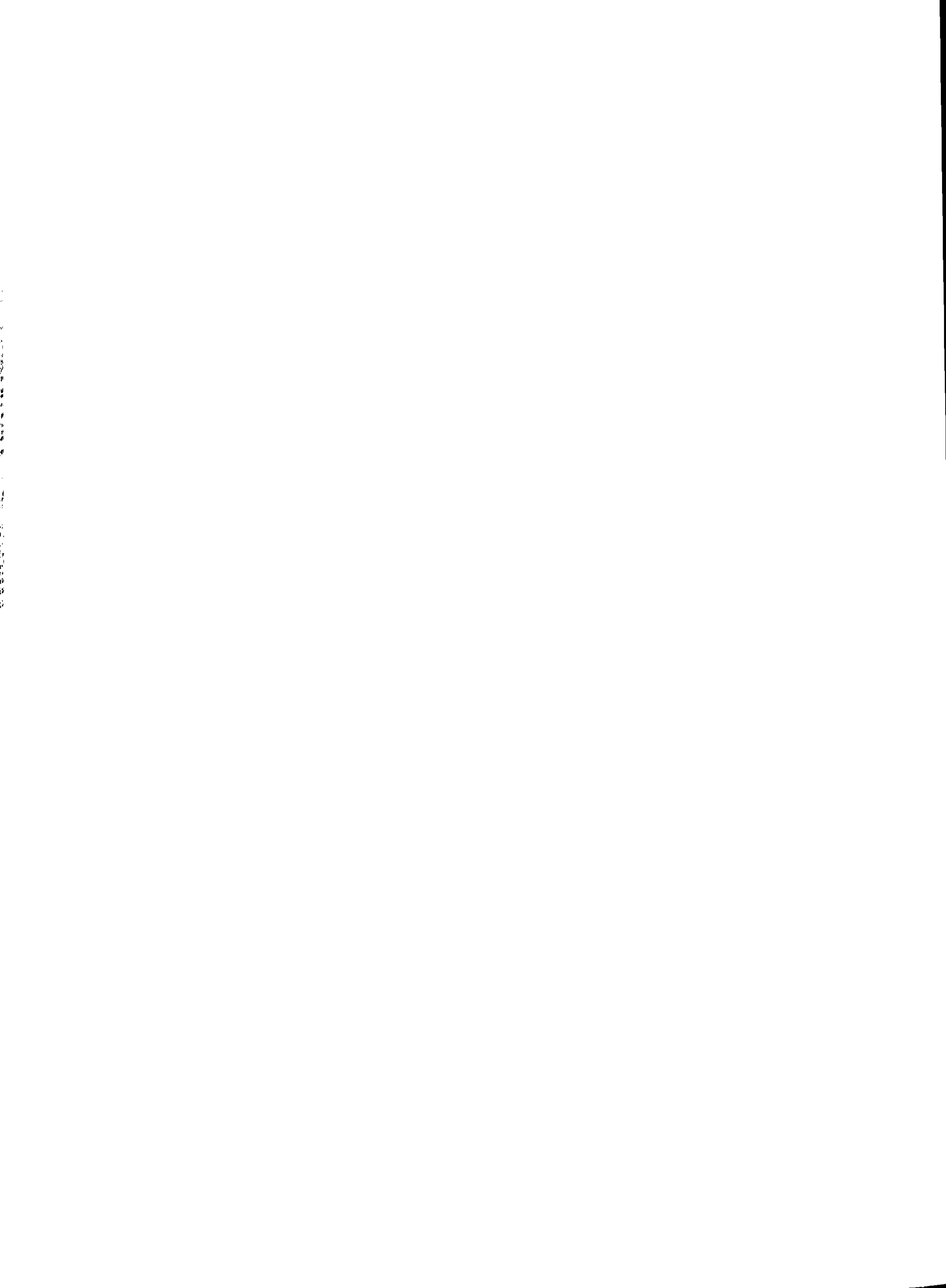
Article 5 (Real Property) shall reduce or be deducted from the value of such property.

The rules of paragraph 1 differ from those under U.S. statutory law, which require expenses, claims and other indebtedness (with the exception of nonrecourse indebtedness) to be apportioned on the basis of the relative values of the portions of the estate of a nonresident alien individual located within and without the United States.

Subject to paragraph 1, paragraph 2 requires the deduction of debts pertaining to the business property or assets of a permanent establishment or fixed base referred to in paragraphs 1 or 6 of Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services) from the value of the permanent establishment or fixed base, as the case may be.

Paragraph 3 provides that if the debt exceeds the value of the property from which it is deductible in a Contracting State under paragraphs 1 and 2, the excess will be deductible from the value of any other property taxable in that State. Paragraph 4 provides that any other debts must be deducted from the value of property taxable by the State of domicile of the transferor or deemed transferor under paragraph 1 of Article 7 (Property Not Expressly Mentioned), and paragraph 5 provides that any excess debt still remaining after the allocations referred to in paragraphs 3 and 4 shall be deducted from the value of the property liable to tax in the other Contracting State.

Paragraph 6 provides that notwithstanding paragraph 2 of Article 1 (Scope), if any debt is deducted in accordance with



the provisions of Article 8 (Deductions and Exemptions), no deduction will be allowed for any debt under the law of the United States which provides for a different allocation. Thus, a choice must be made under paragraph 2 of Article 1 (Scope) between the deduction rules in the internal law of the United States and the rules of Article 8 (Deductions and Exemptions), but the set of rules so chosen must be used consistently and exclusively.

The application of the rules of paragraphs 1 through 6 of this article may be illustrated as follows: A Swedish domiciliary dies holding real estate in the United States with a fair market value of $500,000 and subject to a purchase money mortgage of $200,000. The estate also has non-U.S. situs property with a gross value of $500,000, for a total gross estate of $1,000,000. Such non-U.S. situs property is not property the transfer of which would be subject to the operative provisions of either Article 5 (Real Property) or Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base for the Performance of Independent Personal Services) since the decedent was domiciled in Sweden at the time of his death. The estate incurs administrative expenses of $100,000. Under U.S. statutory law, the estate would be entitled to deduct a proportionate amount of the allowable indebtedness and expenses of $300,000; and since one-half the estate is located and taxable in the United States, a deduction of $150,000 would be allowed. Under the Convention, the estate would deduct the full $200,000 mortgage from the value of its U.S. real estate under paragraph 1. The remaining $100,000 in administrative expenses would be deducted under paragraph 4 from the value of the non-U.S. situs property liable to Swedish tax.

Sections 2055(a)(2) and 2522(a)(2) of the Code provide U.S. citizens or residents with a deduction for transfers of property to or for the use of a domestic or foreign corporation organized and operated for religious, charitable, scientific, literary or educational purposes. In the case of nonresident aliens, however, sections 2106(a)(2) and 2522(b)(2) allow a deduction for estate and gift tax purposes only for the transfer of property to, or for the use of, domestic corporations organized and operated for these purposes. Paragraph 7 provides that transfers and deemed transfers of property made to a corporation or organization of one Contracting State that is organized and operated exclusively for religious, charitable, scientific, or educational purposes that are tax exempt in that Contracting State shall be exempt from tax in the other Contracting State, provided the transfer would be tax exempt if made to a similar entity in that other State. Thus, unlike U.S. statutory law, paragraph 7 would require the United States to allow a deduction for the transfer of property by a domiciliary of Sweden to a Swedish corporation organized exclusively for religious, charitable, scientific or educational purposes, provided that the transfer is exempt from tax in Sweden and would be deductible under U.S. statutory law if made to a similar U.S. corporation.

Since paragraph 7, according to paragraph 4 of Article 1 (Scope), is an exception to the saving clause, it requires Sweden to allow a deduction for a contribution by either its own domiciliary or a U.S. domiciliary to a U.S. corporation or organization operated for the specified purposes, provided the contribution would be tax exempt if made to a similar corporation or organization in Sweden. Paragraph 7 does not alter application of the provisions of the Internal Revenue Code that allow deductions for transfers and deemed transfers

by nonresident alien individuals to certain political entities, fraternal societies operating under the lodge system, and veterans organizations.

Paragraph 8 obligates the United States to give a marital deduction for interspousal transfers of noncommunity property from domiciliaries of Sweden. Subparagraph 4a) provides that such property may be included in the taxable base of the United States only to the extent its value exceeds 50 percent of the value of all the property (taking into account any applicable deductions) which may be taxed by the United States. Thus, noncommunity property transferred from a Swedish domiciliary to his or her spouse may be taxed by the United States only to the extent it exceeds 50 percent of the net value of all property which may be taxed by the United States.

Subparagraph 4b) provides that the tax imposed by the United States on interspousal transfers of noncommunity property by a domiciliary of Sweden who receives the marital deduction under subparagraph 4a) shall be computed by applying the tax rates applicable to a domiciliary of the United States. The resulting liability would be compared with that imposed on a nonresident alien individual under U.S. statutory law (taking the other rules of the Convention into account), and the tax liability would be limited to the lower of the two amounts.

The rules of paragraph 4 may be illustrated by the case of a domiciliary of Sweden who dies with a taxable estate of $2,000,000 in noncommunity property. The entire estate is comprised of property that may, under the Convention, be taxed by the United States. All the property is transferred to the decedent's spouse, and the decedent made no lifetime

transfers of U.S. property. According to the Convention, the taxable base is the excess over 50 percent of all taxable property, or $1,000,000. If the decedent had been domiciled in the United States, the tax liability on $1,000,000 would be $342,200 ($345,800 less the $3,600 unified credit). This is the maximum U.S. tax liability in this case and compares favorably with the $380,400 ($384,000 less the $3,600 unified credit) tax liability on the $2,000,000 estate of the decedent under United States law, apart from the Convention.

If, however, only $500,000 was transferred to the decedent's spouse, the taxable base, under the Convention, would be the $1,500,000 in property not transferred to the spouse. The tax liability would be $552,200 ($555,800 less the $3,600 unified credit). In this case, the treaty provision does not provide for reduced taxation. The estate would be better off by computing its U.S. tax liability under United States statutory law (i.e., $380,400).

Paragraph 9 allows the surviving spouse of a U.S. domiciliary or national to elect that the Swedish tax be assessed as if the provisions of Swedish law regulating matrimonial property rights were applicable to property passing to that spouse in any case where the property rights of the spouse are not regulated by Swedish general law regarding matrimonial property.

Article 9. METHODS FOR ELIMINATION OF DOUBLE TAXATION

The purpose of this Article is to specify the mechanics for avoidance of double taxation. It establishes rules for determining when a Contracting State will credit the taxes of the other Contracting State where both States tax transfers

or deemed transfers of the same property. This can happen, for example, if one Contracting State has the primary right to tax transfers and deemed transfers of property on the basis of situs under Article 5 (Real Property) or Article 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services), but if the other Contracting State has the right to tax the same property on the basis of domicile.

Paragraph 1 applies when the United States imposes tax on the basis of the domicile (as determined under Article 4 (Fiscal Domicile)) or citizenship of an individual. Under subparagraph 1a), the United States will credit tax paid to Sweden with respect to transfers and deemed transfers of property described in Article 5 (Real Property) or 6 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services). In addition, the United States is required under subparagraph 1b), when it taxes on the basis of citizenship, to credit taxes imposed by Sweden on the basis of domicile. This provision obligates the United States, for example, to credit the tax imposed by Sweden on shares of stock in a U.S. corporation transferred by a U.S. citizen domiciled in Sweden. This subparagraph does not apply to a former U.S. citizen who renounced his citizenship primarily for tax avoidance purposes. The Convention does not obligate the United States to credit taxes imposed on these individuals on the basis of their domicile in another State.

Paragraph 2 establishes reciprocal credit rules for Sweden. Paragraph 2 thus requires Sweden to allow a credit for tax paid to the United States on transfers of property

taxable by the United States on a situs basis against tax imposed by Sweden with respect to such transfers on a domiciliary basis. Also, if Sweden taxes transfers or deemed transfers on the basis of citizenship, it must credit the tax paid to the United States on a domiciliary basis.

Paragraph 3 provides for the credit of a gift or generation-skipping tax against a subsequently levied estate tax. For example, if the United States imposes a gift tax on the transfer by a domiciliary of Sweden of U.S. real property and if the real property is subject to Swedish tax at the time of death, Sweden is required by paragraph 3 to give a credit for the U.S. gift tax.

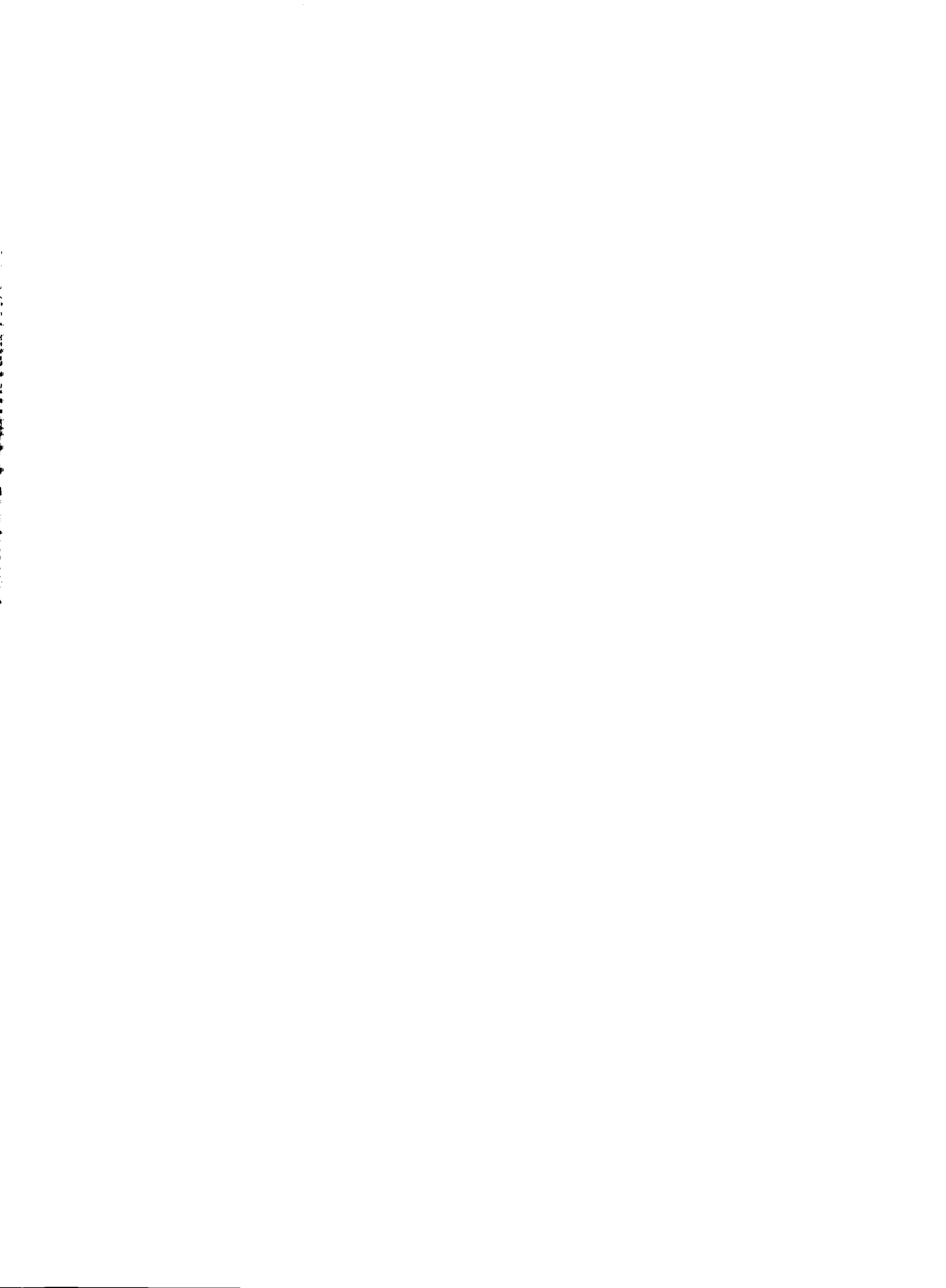
Paragraph 4 preserves the credit despite internal relief allowed by a Contracting State on successive transfers of property. It provides that the credit allowed by a Contracting State under paragraph 1 or 2 shall not be reduced by a credit allowed by the other Contracting State for taxes paid on prior transfers or deemed transfers. For example, section 2013 of the Code, which is intended to prevent diminution of an estate by successive taxes on the same property within a brief period, provides U.S. citizens or residents with an estate tax credit for Federal estate taxes paid on the transfer of property to the present decedent from an individual who died within 10 years before or 2 years after the present decedent. Paragraph 4 requires Sweden to preserve the relief accorded under section 2013 by crediting the full tax allowed by paragraph 1 or 2, unreduced by any credit allowed by the United States for taxes paid on previous transfers or deemed transfers.

Although the provisions of Article 2 (Taxes Covered) generally extend the coverage of the Convention only to

Federal taxes, paragraph 5 of this Article provides that the credit allowed by a Contracting State according to paragraphs 1, 2, 3, and 4 shall include credit for taxes paid to political subdivisions of the other Contracting State to the extent such taxes are allowed as credits by that other State. As section 2011(a) of the Code allows a credit against the Federal estate tax for estate and inheritance taxes paid to any State or the District of Columbia, paragraph 5 thus requires Sweden to allow a credit for these taxes to the extent they are creditable against the Federal estate tax.

Paragraph 6 limits the credit allowed by paragraphs 1 and 2 to the tax imposed by a Contracting State on the property in respect of which a credit is claimed. The purpose of the limitation is to prevent a credit from eroding the tax imposed by a Contracting State on transfers or deemed transfers of property which may not, under the Convention, be taxed by the other Contracting State. In making this calculation the tax on the property is determined before the credit is given.

The application of paragraph 6 may be illustrated by the case of a decedent who was a U.S. citizen domiciled in Sweden and whose estate consisted of U.S. real property with a fair market value of $20x and assets in Sweden with a fair market value of $100x. The decedent made no transfers which would qualify for either the charitable or marital deduction under U.S. law. The entire $120x gross estate is taxable in the United States on the basis of citizenship and in Sweden on the basis of domicile. The United states retains primary taxing jurisdiction over the U.S. real property and Sweden over the other assets. If the inheritance tax in Sweden on the $120x estate were $24x and the U.S. estate tax were $30x before the allowance for any credits under this Article,



Sweden would credit $4x of U.S. tax on the U.S. real property (i.e., a credit for the U.S. tax of $5x on that property ($20x/$120x times $30x), but limited to the $4x of Swedish tax on that property ($20x/$120x times $24x)). The portion of the $24x of Swedish tax that is attributable to the $100x of property in Sweden is $20x ($100x/$120x times $24x). Since this is less than the $25x of U.S. tax attributable to the same property ($100x/$120x times 30x), the United States would credit the full $20x of net tax paid to Sweden, and there would be net U.S. tax liability of $10x.

Paragraph 7 specifies a time period for claiming the credit under this Article. Under section 2014(e) of the Code, the credit for foreign death taxes must be claimed by the latest of: the date 4 years from the filing of the estate tax return; the date of the expiration of any extension of time for paying the Federal estate tax; or the date 60 days after a final decision of the Tax Court on a timely filed petition for redetermination of a deficiency. Paragraph 7 extends the time period by providing that any claim for credit or refund based on this Article may be made any time until the later of the date six years from the date of the event giving rise to liability to tax or the date one year from the last date on which tax for which the credit is given is due. The competent authorities may in appropriate circumstances extend this time limit where the final determination of the taxes which are the subject of the claim for credit is delayed.

Article 10. NON-DISCRIMINATION

Paragraph 1 prohibits discrimination based solely on citizenship. It states that citizens of a Contracting State, wherever they are resident, shall not be subjected in the

other Contracting State to taxation or any requirement connected therewith which is other or more burdensome than the taxation or connected requirements to which citizens of the other Contracting State in the same circumstances are or may be subjected. The paragraph specifies that a Swedish citizen who is not a resident of the United States is not in the same circumstances as a U.S. citizen who is not a resident of United States. The reason for this provision is that the United States taxes its citizens on a worldwide basis regardless of residence, while nonresident alien individuals are taxed only on a situs or source basis. Paragraph 1 allows the United States to maintain this distinction in applying its law to citizens and nonresident alien individuals. The paragraph provides a similar rule for the purpose of Swedish taxes, specifying that a U.S. citizen who is not a resident of Sweden is not in the same circumstances as a Swedish citizen who is not a resident of Sweden.

Paragraph 2 extends similar protection from discrimination by one Contracting State against a permanent establishment which a resident of the other Contracting State has in the first State. This paragraph is designed to prohibit discrimination based upon the residence of the person owning the enterprise which has a permanent establishment; it is not intended to require a Contracting State to grant a resident of the other Contracting State any personal allowances, relief, or reductions on account of civil status or family responsibilities which it grants to its own residents.

Paragraph 3 extends similar protection against discrimination by one Contracting State to entities that are organized under the laws of that State and the capital of which is wholly or partly owned or controlled directly or

indirectly by one or more individual residents of the other Contracting State. This provision relates only to the taxation of entities (such as partnerships or corporations) and not to the persons owning or controlling their capital. Its object is to ensure equal treatment for taxpayers residing in the same State and not to subject capital in the hands of foreign partners or shareholders to treatment identical to that applied to capital held by U.S. persons. Paragraphs 2 and 3 will apply frequently to taxes which are covered by paragraph 4 of this Article but which are not generally covered by the Convention.

Paragraph 4 provides that the provisions of this Article apply to all taxes imposed by a Contracting State or a political subdivision or local authority thereof. Thus, the non-discrimination provisions are not confined to the taxes generally covered by the Convention (*i.e.*, the Federal estate, gift, and generation-skipping transfer taxes in the United States and the inheritance tax and gift tax in Sweden).

The term "resident" as used in this Article is not defined in the Convention and, accordingly, is to be interpreted in accordance with the rules set forth in paragraph 2 of Article 3 (General Definitions).

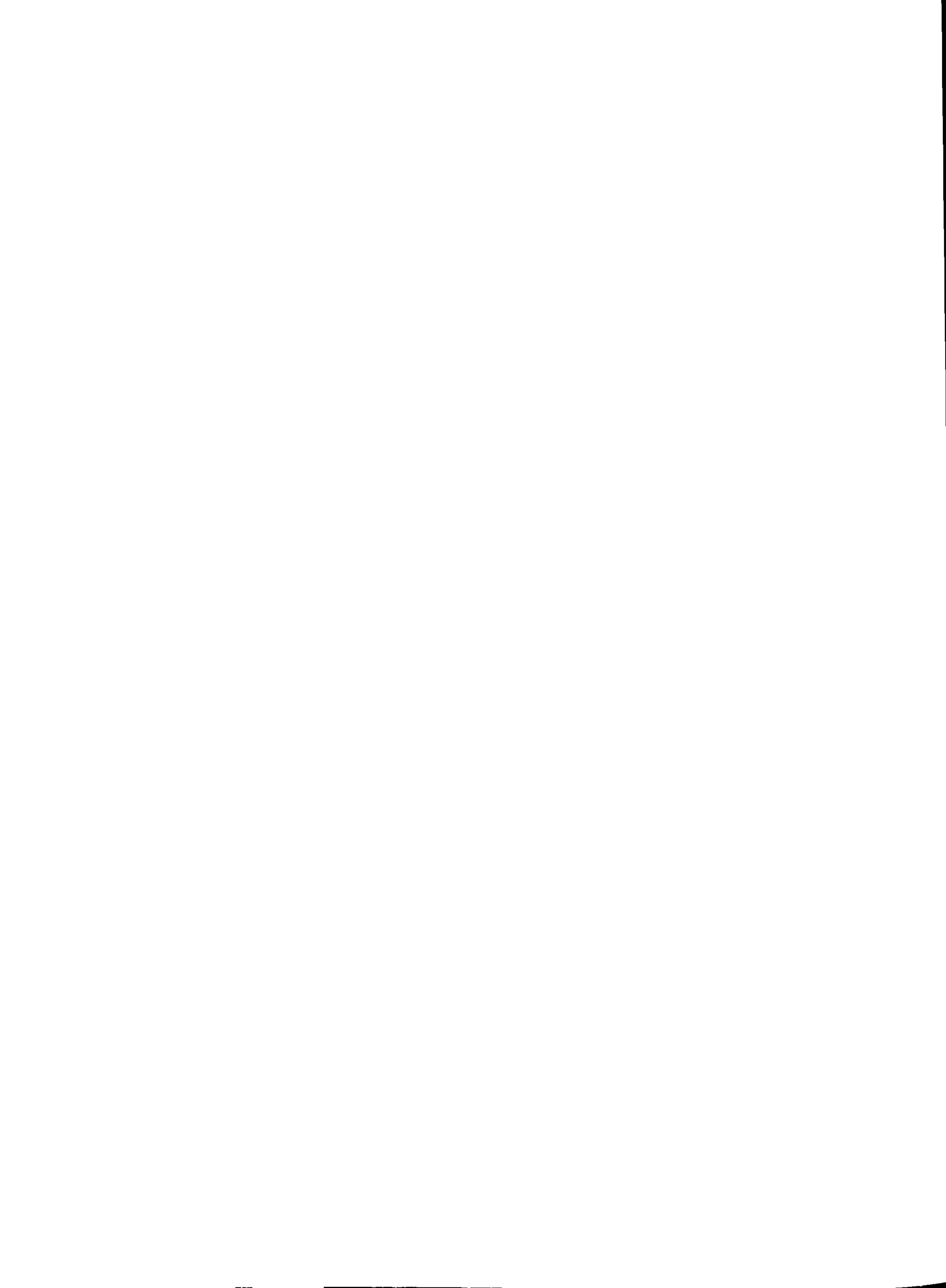
Article 11. MUTUAL AGREEMENT PROCEDURE

This Article specifies a procedure for resolving differences arising out of the administration and application of the Convention. Under paragraph 1, if a person considers that the actions of one or both of the Contracting States result or will result in taxation which is not in accordance

with the Convention, he may present his case to the competent authority of the Contracting State of which he is a resident or citizen. Although a person need not exhaust other administrative or judicial remedies prior to resorting to the mutual agreement procedure, it is expected that a person normally will do so. It is not required that the actions concerned already have resulted in taxation not in accordance with the Convention. The threat of such taxation is sufficient to justify a presentation to the competent authority. Such a presentation must be made, however, within one year after a claim under the Convention for exemption, credit, or refund has been finally settled or rejected.

Paragraph 2 provides that if the competent authority to which a case is presented considers an objection justified and cannot by itself arrive at a satisfactory solution, it will attempt to resolve the case by discussion and agreement with the competent authority of the other Contracting State. In cases where the competent authorities reach an agreement, the agreement will be implemented in accordance with the Convention notwithstanding any time limits or any other procedural limitations applicable under the internal laws of the Contracting States. This provision can only benefit a taxpayer, as no additional tax may be imposed if such would be precluded under the internal law of the taxing State by a statute of limitations or a closing agreement. In cases where an agreement cannot be reached between the competent authorities, the United States is not required to provide relief from double taxation on a unilateral basis.

Paragraph 3 permits the competent authorities of the Contracting States to endeavor to resolve difficulties or doubts regarding the interpretation or application of the Convention, such as the meaning of terms.



The competent authorities are not required to proceed through diplomatic channels in order to reach an agreement in accordance with the provisions of this Article. Paragraph 4 allows them to communicate with each other directly for the purpose of reaching such an agreement.

Article 12. EXCHANGE OF INFORMATION

This article provides a system of administrative cooperation between the Contracting States. Paragraph 1 requires the exchange of information necessary for carrying out the provisions of the Convention or the domestic laws of the Contracting States concerning the taxes to which the Convention applies. Such exchange may be either upon request or on a routine basis not requiring a specific request. The requirement to exchange information is not restricted by Article 1 (Scope); thus, information may be exchanged which relates to the taxation of individuals not domiciled in either Contracting State. The competent authorities may exchange information in connection with tax compliance generally, as well as information regarding illegal acts or crimes.

Any information received by a Contracting State must be treated as secret in the same manner as information obtained under the domestic laws of that State. The information may be disclosed only to persons or authorities (including a court or administrative body) involved in the administration, assessment, or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. The Convention contemplates that the information may be disclosed to the Congress and its administrative agencies, such as the General

Accounting Office. Persons receiving information shall use the information only for the specified purposes, but they may disclose such information in public court proceedings or judicial decisions.

Paragraph 2 places limits on the obligations imposed on a Contracting State by paragraph 1. A Contracting State is not required to carry out administrative measures at variance with the laws and administrative practices of either Contracting State or to supply information unobtainable under the laws or normal administrative practices of either Contracting State. Thus, a Contracting State is not bound to go beyond its own laws and practices or those of the other Contracting State in making information available to that other State. In addition, it need not supply information which would disclose any trade, business, industrial, commercial, or professional secret or trade process, or information the disclosure of which would be contrary to public policy.

Paragraph 3 prescribes the method for collecting requested information and the form in which such information is to be provided. A Contracting State shall obtain the information requested by the other Contracting State in the same manner and to the same extent that it would for obtaining information with respect to its own tax. If specifically requested, this includes obtaining depositions of witnesses and authenticated copies of unedited original documents, such as books, papers, statements, records, accounts, or writings.

Paragraph 4 provides that the obligations of this Article shall apply to taxes of every kind imposed by a Contracting State.

Article 13. DIPLOMATIC AGENTS AND CONSULAR OFFICERS

Diplomatic agents and consular officers frequently are accorded benefits under international laws and agreements. Paragraph 1 preserves these benefits.

Paragraph 2 makes clear that the Convention does not apply to officials of international organizations and members of a diplomatic or consular mission of a third State who are not treated as domiciled in either Contracting State for purposes of the Convention. The paragraph states explicitlv what can be inferred from paragraph 1 of Article 1 (Scope), i.e., that the Convention does not generally apply to individuals who are not domiciled in either Contracting State.

Article 14. ENTRY INTO FORCE

This Article specifies the procedure for bringing the Convention into force. Paragraph 1 provides that the Convention shall be ratified in accordance with the applicable procedures of each Contracting State and that instruments of ratification are to be exchanged as soon as possible after both States have ratified the Convention.

Paragraph 2 provides that the Convention will enter into force upon the exchange of instruments of ratification. In the case of the United States, it will apply to transfers of estates of individuals dying, gifts made, and generation-skipping transfers on or after the date of exchange of instruments of ratification. In the case of Sweden, it will apply to the inheritance tax imposed on transfers by persons who die on or after that date and to the gift tax on gifts by

reference to which there is a charge to tax which arises on or after that date.

Article 15. TERMINATION

This Article specifies the procedure for terminating the Convention, which is to remain in force indefinitely until terminated by one of the Contracting States. A Contracting State may not terminate the Convention until it has been in force at least five years. Then either Contracting State may terminate the Convention by providing the other State at least six months prior notice through diplomatic channels. The notice must specify the date of termination. If the Convention is terminated in accordance with these procedures, it will have no effect after the December 31 which either is or next follows the specified termination date, but will continue to apply in respect of the estate of any individual dying before the end of that period and in respect of any event (other than death) occurring before the end of that period and giving rise to liability to tax under the law of either Contracting State.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 28, 1983

RESULTS OF AUCTION OF 7-YEAR NOTES

The Department of the Treasury has accepted $ 5,253 million of $13,537 million of tenders received from the public for the 7-year notes, Series D-1991, auctioned today. The notes will be issued January 4, 1984, and mature January 15, 1991.

The interest rate on the notes will be 11-3/4%. The range of accepted competitive bids, and the corresponding prices at the 11-3/4% interest rate are as follows:

	Yield	Price
Low	11.74%	100.028
High	11.75%	99.981
Average	11.75%	99.981

Tenders at the high yield were allotted 97%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

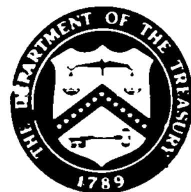
Location	Received	Accepted
Boston	$ 146,910	$ 15,760
New York	11,984,098	4,764,481
Philadelphia	6,042	5,042
Cleveland	71,147	29,886
Richmond	24,350	18,260
Atlanta	32,865	21,775
Chicago	674,930	225,380
St. Louis	78,606	76,606
Minneapolis	10,989	8,989
Kansas City	30,912	30,912
Dallas	7,263	7,263
San Francisco	467,680	47,675
Treasury	824	824
Totals	$13,536,616	$5,252,853

The $ 5,253 million of accepted tenders includes $ 558 million of noncompetitive tenders and $ 4,695 million of competitive tenders from the public.

In addition to the $ 5,253 million of tenders accepted in the auction process, $255 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities.

R-2474

TREASURY NEWS



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

FOR IMMEDIATE RELEASE December 27, 1983

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,402 million of 13-week bills and for $6,410 million of 26-week bills, both to be issued on December 29, 1983, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 29, 1984			:	26-week bills maturing June 28, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.87% a/	9.22%	97.758	:	9.09%	9.69%	95.405
High	8.96%	9.32%	97.735	:	9.15%	9.75%	95.374
Average	8.94%	9.30%	97.740	:	9.14%	9.74%	95.379

a/ Excepting 1 tender of $2,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 50%.
Tenders at the high discount rate for the 26-week bills were allotted 61%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 232,205	$ 132,205	:	$ 151,090	$ 101,090
New York	12,245,370	5,200,370	:	14,048,120	5,531,220
Philadelphia	36,645	36,645	:	17,875	17,875
Cleveland	99,325	79,325	:	42,240	42,240
Richmond	29,520	29,520	:	45,450	38,720
Atlanta	32,690	32,690	:	34,925	34,925
Chicago	1,395,875	540,875	:	1,157,115	250,065
St. Louis	57,865	50,865	:	70,445	62,665
Minneapolis	17,080	17,080	:	34,730	32,730
Kansas City	32,160	32,160	:	43,055	43,055
Dallas	30,790	28,290	:	28,275	26,325
San Francisco	724,795	74,795	:	695,595	45,595
Treasury	146,845	146,845	:	183,295	183,295
TOTALS	$15,081,165	$6,401,665	:	$16,552,210	$6,409,800
Type					
Competitive	$12,819,025	$4,139,525	:	$13,844,890	$3,702,480
Noncompetitive	831,650	831,650	:	724,020	724,020
Subtotal, Public	$13,650,675	$4,971,175	:	$14,568,910	$4,426,500
Federal Reserve	1,288,490	1,288,490	:	1,100,000	1,100,000
Foreign Official Institutions	142,000	142,000	:	883,300	883,300
TOTALS	$15,081,165	$6,401,665	:	$16,552,210	$6,409,800

1/ Equivalent coupon-issue yield.

R-2475

TREASURY NEWS

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

FOR IMMEDIATE RELEASE December 27, 1983

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $6,014 million of $18,844 million of tenders received from the public for the 4-year notes, Series L-1987, auctioned today. The notes will be issued January 3, 1984, and mature December 31, 1987.

The interest rate on the notes will be 11-1/4%. The range of accepted competitive bids, and the corresponding prices at the 11-1/4% interest rate are as follows:

	Yield	Price
Low	11.35%	99.686
High	11.36%	99.655
Average	11.35%	99.686

Tenders at the high yield were allotted 36%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 191,499	$ 60,999
New York	16,582,711	5,308,927
Philadelphia	15,421	15,421
Cleveland	127,375	46,990
Richmond	75,743	36,043
Atlanta	71,542	27,542
Chicago	913,309	280,829
St. Louis	121,641	98,641
Minneapolis	34,215	27,215
Kansas City	60,945	56,945
Dallas	12,620	10,620
San Francisco	635,688	42,528
Treasury	1,224	1,224
Totals	$18,843,933	$6,013,924

The $6,014 million of accepted tenders includes $ 792 million of noncompetitive tenders and $ 5,222 million of competitive tenders from the public.

In addition to the $6,014 million of tenders accepted in the auction process, $180 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $370 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-2476

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. December 27, 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 $12,800 million, to be issued January 5, 1984. This offering will provide $525 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,265 million, including $772 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,691 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 $6,400 million, representing an additional amount of bills dated October 6, 1983, and to mature April 5, 1984 (CUSIP No. 912794 EU 4), currently outstanding in the amount of $6,045 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,400 million, to be dated January 5, 1984, and to mature July 5, 1984 (CUSIP No. 912794 FM 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 5, 1984. 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.

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, prior to 1:30 p.m., Eastern Standard time, Tuesday, January 3, 1984. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 January 5, 1984, in cash or other immediately-available funds or in Treasury bills maturing January 5, 1984. 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 December 29, 1983

RESULTS OF AUCTION OF 19-YEAR 10-MONTH TREASURY BONDS

The Department of the Treasury has accepted $3,754 million of $8,934 million of tenders received from the public for the 11-7/8% 19-year 10-month Bonds of 2003, auctioned today. The bonds will be issued January 4, 1984, and mature November 15, 2003.

The range of accepted competitive bids was as follows:

	Yield	Price
Low	11.92%	99.538
High	11.96%	99.237
Average	11.95%	99.312

Tenders at the high yield were allotted 48%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 117,415	$ 7,415
New York	7,915,097	3,468,177
Philadelphia	345	345
Cleveland	19,417	13,377
Richmond	10,069	9,289
Atlanta	12,533	7,533
Chicago	456,366	149,586
St. Louis	48,607	47,597
Minneapolis	9,409	9,409
Kansas City	14,179	14,179
Dallas	1,067	1,067
San Francisco	328,981	25,381
Treasury	265	265
Totals	$8,933,750	$3,753,620

The $3,754 million of accepted tenders includes $355 million of noncompetitive tenders and $3,399 million of competitive tenders from the public.

R-2478

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. January 3, 1984

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,800 million, to be issued January 12, 1984. This offering will provide $ 475 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,324 million, including $ 806 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $ 2,940 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 $ 6,400 million, representing an additional amount of bills dated October 13, 1983, and to mature April 12, 1984 (CUSIP No. 912794 EV 2), currently outstanding in the amount of $ 6,115 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 6,400 million, representing an additional amount of bills dated July 14, 1983, and to mature July 12, 1984 (CUSIP No. 912794 FE 9), currently outstanding in the amount of $ 7,846 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 January 12, 1984. 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.

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, prior to 1:30 p.m., Eastern Standard time, Monday, January 9, 1984. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 January 12, 1984, in cash or other immediately-available funds or in Treasury bills maturing January 12, 1984. 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 January 3, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,401 million of 13-week bills and for $ 6,414 million of 26-week bills, both to be issued on January 5, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 5, 1984			:	26-week bills maturing July 5, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	9.00%	9.36%	97.725	:	9.16%	9.77%	95.369
High	9.05%	9.42%	97.712	:	9.19%	9.80%	95.354
Average	9.04%	9.41%	97.715	:	9.19%	9.80%	95.354

Tenders at the high discount rate for the 13-week bills were allotted 9%.
Tenders at the high discount rate for the 26-week bills were allotted 53%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 242,265	$ 40,810	:	$ 184,195	$ 47,760
New York	14,803,025	5,275,925	:	17,078,130	5,306,185
Philadelphia	22,490	22,490	:	17,970	17,970
Cleveland	45,220	36,120	:	52,565	40,215
Richmond	68,875	54,775	:	112,060	54,710
Atlanta	60,090	50,990	:	174,530	81,985
Chicago	1,503,750	384,340	:	1,394,990	260,520
St. Louis	88,000	59,000	:	114,290	65,290
Minneapolis	13,210	8,660	:	25,955	16,135
Kansas City	57,135	57,135	:	75,965	75,965
Dallas	31,870	27,250	:	31,465	29,115
San Francisco	816,530	98,230	:	858,965	80,165
Treasury	285,300	285,300	:	338,165	338,165
TOTALS	$18,037,760	$6,401,025	:	$20,459,245	$6,414,180
Type					
Competitive	$15,366,390	$3,929,655	:	$17,611,860	$3,766,795
Noncompetitive	1,056,865	1,056,865	:	999,475	999,475
Subtotal, Public	$16,423,255	$4,986,520	:	$18,611,335	$4,766,270
Federal Reserve	1,390,710	1,190,710	:	1,300,000	1,100,000
Foreign Official Institutions	223,795	223,795	:	547,910	547,910
TOTALS	$18,037,760	$6,401,025	:	$20,459,245	$6,414,180

An additional $ 6,505 thousand of 13-week bills and an additional $12,790 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

R-2480

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 5, 1984

CONTACT: ROBERT LEVINE
(202) 566-2041

TREASURY TO SPONSOR DIRECT DEPOSIT TRAINING TELECONFERENCE

The Department of the Treasury announced today it will sponsor a one-day direct deposit teleconference in 52 U.S. cities on February 15, 1984.

Secretary of the Treasury Donald T. Regan, E. Gerald Corrigan, president of the Federal Reserve Bank of Minneapolis, and William E. Douglas, commissioner of Treasury's Bureau of Government Financial Operations (BGFO) will address the daylong conference. Experts in electronic funds transfer, commonly known as direct deposit, will also be on hand in each location to answer questions.

Co-sponsors of the conference are the Federal Reserve and the Bank Administration Institute. The cost of the seminar is $95, including lunch or brunch.

According to Mr. Douglas, the purpose of this first Treasury-sponsored teleconference, is to train those people who work in organizations which are recipients of direct deposit payments. Topics to be discussed include:

-- a new green book on direct deposit procedures

-- one page guides on return items, changes, reclamations and non receipts

-- a new combined authorization form making enrollments easier

-- review of responsibility on recovery actions and how to limit your liability

- processing requests for refunds

-- returning payments automatically

-- how to increase direct deposits on a low marketing

The teleconference will be held in the following cities:

Eastern Standard Time Zone
(Beginning at 11:30 a.m.)

Atlanta, Georgia
Baltimore, Maryland

Central Time Zone
(Beginning at 10:30 a.m.)

Birmingham, Alabama
Chicago, Illinois

Boston, Massachusetts
Buffalo, New York
Charleston, West Virginia
Charlotte, North Carolina
Cincinnati, Ohio
Cleveland, Ohio
Columbia, South Carolina
Detroit, Michigan
Fort Lauderdale, Florida
Hartford, Connecticut
Indianapolis, Indiana
Lansing, Michigan
Louisville, Kentucky
Newark, New Jersey
New York, New York
Orlando, Florida
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Richmond, Virginia
Washington, D.C.
Jacksonville, Florida

Dallas, Texas
Des Moines, Iowa
Houston, Texas
Jackson, Mississippi
Kansas City, Missouri
Little Rock, Arkansas
Madison, Wisconsin
Memphis, Tennessee
Minneapolis, Minnesota
Nashville, Tennessee
New Orleans, Louisiana
Oklahoma City, Oklahoma
Omaha, Nebraska
San Antonio, Texas
Springfield, Illinois
St. Louis, Missouri
Sioux City, Iowa

Mountain Time Zone
(Beginning at 9:30 a.m.)

Denver, Colorado
Helena, Montana
Phoenix, Arizona
Salt Lake City, Utah
Boise, Idaho
Casper, Wyoming

Pacific Time Zone
(Beginning at 8:30 a.m.)

Los Angeles, California
Portland, Oregon
San Francisco, California
Seattle, Washington

To register for participation in the conference at any location call: 1-312-228-2359 or 1-312-228-2412.

Registration closes on February 10, 1984.

TREASURY NEWS

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

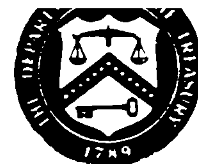
January 6, 1984

Statement by Secretary Regan

Today's release on December unemployment is one more signal of the strength of the recovery. The growth in the labor force last month was more than offset by growth in employment and, significantly, this increase in the work force is broadly based.

There are now almost 4 million more American men and women at work today than there were this time last year. That has got to be good news for everybody.

TREASURY NEWS



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

FOR IMMEDIATE RELEASE
January 6, 1984

CONTACT: Stephen Hayes
566-5252

DOLLAR BILL SIGNING CEREMONY

Treasury Secretary Donald T. Regan and U.S. Treasurer Katherine Davalos Ortega will observe $1 bills with both their signatures rolling off the press for the first time, at the Bureau of Engraving and Printing, Monday, January 9, at 9:30 a.m.

Secretary Regan and Treasurer Ortega will be escorted to the press section by Bureau Director Robert J. Leuver. The press will be started with the first sheets directed from the feeder end through the intaglio process to the delivery end of the press. The sheets will then be removed to an examining table, where the Secretary and Treasurer will inspect them.

The currency, of series 1981A, will be introduced in February in the $1 denomination. Conversion of all currency to the new series is expected within six months. The new series will be issued as old plates wear and as stocks of the former series are depleted.

The alpha suffix to 1981 indicates that a single signature -- in this case, that of the Treaurer -- has been changed. A new date is used only when the signatures of the Treasurer and Secretary of the Treasury change simultaneously, or when some other basic design alteration has been made.

The series 1981A currency will be printed on a sheet-fed Giori I-8 cylinder wipe press, which can produce approximately 8,200, 32-subject sheets per hour. The Bureau currently has eight I-8 cylinder wipe presses to produce currency, each of which is operated by two plate printers.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE January 9, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,421 million of 13-week bills and for $6,420 million of 26-week bills, both to be issued on January 12, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 12, 1984			:	26-week bills maturing July 12, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.90% a/	9.26%	97.750	:	9.08%	9.67%	95.410
High	8.93%	9.29%	97.743	:	9.11%	9.71%	95.394
Average	8.92%	9.28%	97.745	:	9.10%	9.70%	95.399

a/ Excepting 1 tender of $2,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 79%.
Tenders at the high discount rate for the 26-week bills were allotted 40%.

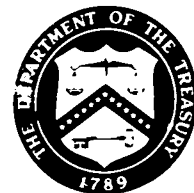
TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 247,390	$ 62,390	:	$ 167,210	$ 60,210
New York	14,614,380	5,105,330	:	15,306,605	5,104,885
Philadelphia	30,150	30,150	:	28,445	28,445
Cleveland	45,625	40,625	:	65,955	47,955
Richmond	47,425	47,215	:	86,110	82,110
Atlanta	54,045	54,045	:	155,175	154,275
Chicago	1,497,385	278,695	:	1,060,820	145,620
St. Louis	105,550	76,550	:	101,185	72,185
Minneapolis	28,190	20,905	:	29,925	24,925
Kansas City	45,985	45,485	:	64,585	64,585
Dallas	31,475	30,425	:	35,835	32,835
San Francisco	1,276,170	308,020	:	1,191,685	178,685
Treasury	320,865	320,865	:	423,695	423,695
TOTALS	$18,344,635	$6,420,700	:	$18,717,230	$6,420,410
Type					
Competitive	$15,648,725	$3,974,790	:	$15,466,245	$3,419,425
Noncompetitive	1,170,575	1,170,575	:	1,194,685	1,194,685
Subtotal, Public	$16,819,300	$5,145,365	:	$16,660,930	$4,614,110
Federal Reserve	1,515,335	1,265,335	:	1,425,000	1,175,000
Foreign Official Institutions	10,000	10,000	:	631,300	631,300
TOTALS	$18,344,635	$6,420,700	:	$18,717,230	$6,420,410

1/ Equivalent coupon-issue yield.

R-2483

TREASURY NEWS



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

FOR RELEASE AT 4:00 P.M. January 10, 1984

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,800 million, to be issued January 19, 1984. This offering will provide $500 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,289 million, including $1,275 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $ 2,096 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 $ 6,400 million, representing an additional amount of bills dated April 21, 1983, and to mature April 19, 1984 (CUSIP No. 912794 EF 7), currently outstanding in the amount of $ 13,807 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 6,400 million, to be dated January 19, 1984, and to mature July 19, 1984 (CUSIP No. 912794 FN 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 19, 1984. 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.

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-2484

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, January 16, 1984. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 January 19, 1984, in cash or other immediately-available funds or in Treasury bills maturing January 19, 1984. 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
January 11, 1984

CONTACT: CHARLES POWERS
(202) 566-2041

U.S. AND BARBADOS
TO CONDUCT
INCOME TAX TREATY NEGOTIATIONS

The Treasury Department today announced that representatives of the United States and Barbados will meet in Bridgetown, Barbados during the week of February 13, 1984 to begin negotiations of an income tax treaty between the two countries.

A previous treaty between the two countries, which was the result of a 1959 extension of the then existing treaty between the United States and the United Kingdom, was terminated by the United States (along with 17 other similar extension treaties) effective January 1, 1984.

The discussions will take into account the model income tax treaties published by the Organization for Economic Cooperation and Development (OECD) and by the United States, as well as any changes in these models necessary to reflect Barbados' status as a developing country.

Anyone wishing to provide information or comments on tax matters related to the forthcoming negotiations is invited to do so by writing to A. W. Granwell, International Tax Counsel, U.S. Treasury Department, Room 3064, Washington, D.C. 20220.

This notice will appear in the Federal Register on January 12, 1984.

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R-2485

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 11, 1984

CONTACT: CHARLES POWERS
(202) 566-2041

UNITED STATES AND DOMINICAN REPUBLIC REACH UNDERSTANDING ON SUBSTANCE OF INFORMATION EXCHANGE MEMORANDUM

The Treasury Department today announced that the Governments of the United States and the Dominican Republic have reached an understanding on the substance of a Memorandum between the two countries on the exchange of information relating to taxes. The two countries agreed to take steps necessary to finalize the text of the Memorandum for formal signature.

The Memorandum would enter into force when signed by duly authorized representatives of the two countries. The Memorandum would satisfy the requirement for an exchange of information agreement under section 222 of the Caribbean Basin Economic Recovery Act (section 274(h) of the Internal Revenue Code).

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R-2486

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 13, 1984

CONTACT: Charles Powers
(202) 566-2041

TREASURY ISSUES TAX HAVEN REPORT

The Treasury Department today released the report, Tax Havens in the Caribbean Basin. The report, required by section 223 of the Caribbean Basin Economic Recovery Act of 1983, was written jointly by the Treasury Department, the Internal Revenue Service, and the Justice Department.

The report describes the characteristics and uses of tax havens. Data on banking and other financial activity in and related to the Caribbean Basin are presented. The report includes several examples, drawn from recent Justice Department cases, of the use of tax havens for criminal activities. Current anti-tax haven efforts of the Treasury Department, the Internal Revenue Service, and the Justice Department are also discussed. The report is available for sale through the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Stock number 048-000-00361-3.

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TREASURY NEWS

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

FOR RELEASE:
6:30 A.M. EST
Saturday, January 14, 1984

Contact: Charles Powers
(202) 566-2041

TREASURY SECRETARY REGAN ANNOUNCES SECRET SERVICE PROTECTION FOR SEVEN PRESIDENTIAL CANDIDATES

Secretary of the Treasury Donald T. Regan announced that U.S. Secret Service protection has been authorized to begin today for seven Democratic presidential candidates. They are Reubin Askew, Senator Alan Cranston, Senator John Glenn, Senator Gary Hart, Senator Ernest Hollings, George McGovern, and Walter Mondale.

The Secretary of the Treasury has the responsibility, after consulting with an Advisory Committee, for determining who is a "major" candidate and thus qualifies for Secret Service protection. The Advisory Committee consists of Speaker of the House Thomas P. O'Neill, House Minority Leader Robert Michel, Senate Majority Leader Howard Baker, Senate Minority Leader Robert Byrd and a public member, William P. Rogers, former U.S. Attorney General and Secretary of State. The public member is selected by the other Committee members.

In November 1983, the Secretary and the Advisory Committee adopted a set of guidelines for determining "major" Presidential candidate status. For a person to be a "major" candidate under the guidelines he or she should be: an announced candidate; be seriously interested in and be campaigning nationally for the office; qualify for federal matching funds under Federal Election Commission (FEC) regulations and raise an additional $1.5 million in contributions; or receive at least 10% of the votes in two consecutive primaries.

The Treasury Secretary may, however, after consulting with the Committee, determine that although the qualifiying conditions have not been met a candidate is still a "major" candidate.

The commencement date for protection of candidates was originally set for February 1, 1984, but the Committee and the Secretary adjusted the date to January 14, 1984.

Secret Service protection for the Reverend Jesse Jackson was authorized by Secretary Regan to begin on November 10, 1983. The Secretary acted on the recommendation of the Advisory Committee after a request was received from the Jackson campaign.

The Secret Service protects major Presidential candidates as a result of Public Law 90-331, as amended. The law was enacted in 1968 after the assassination of Senator Robert Kennedy.

R-2488

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON

January 13, 1984

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $ 8,250 million of 364-day Treasury bills to be dated January 26, 1984, and to mature January 24, 1985 (CUSIP No. 912794 GG 3). This issue will provide about $ 725 million new cash for the Treasury, as the maturing 52-week bill was originally issued in the amount of $ 7,527 million.

The bills will be issued for cash and in exchange for Treasury bills maturing January 26, 1984. In addition to the maturing 52-week bills, there are $12,276 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 $1,836 million, and Federal Reserve Banks for their own account hold $ 2,823 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate 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 $280 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, prior to 1:30 p.m., Eastern Standard time, Thursday, January 19, 1984. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must 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. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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. 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 January 26, 1984, in cash or other immediately-available funds or in Treasury bills maturing January 26, 1984. 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

EMBARGOED FOR RELEASE UPON DELIVERY
Expected at 10:30 MST
Monday, January 16, 1984

File

TESTIMONY OF THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON
BANKING, HOUSING AND URBAN AFFAIRS
SALT LAKE CITY, UTAH
MONDAY, JANUARY 16, 1983

Mr. Chairman and members of this distinguished committee:

I appreciate this opportunity to join you in Salt Lake City and to participate in this first of the 1984 Congressional deliberations on the future of the financial services industry in this country.

Mr. Chairman, you are to be applauded for your efforts on the important issue of financial deregulation and for your timely response to an urgent situation. The Garn-St Germain Depository Institutions Deregulation Act, which your leadership made possible, was an important step toward deregulation of the financial service industry. We are here today to consider that next step towards a more competitive and productive financial marketplace.

However, before I begin my testimony, I would like to make a few brief observations on our rapidly recoverying economy, if I may.

ECONOMIC OUTLOOK

Four years ago, this country was saddled with low productivity growth and high inflation. Real economic growth activity had virtually ground to a stand still. Today we see quite a different picture.

Inflation, as measured by the GNP deflator, rose by an estimated 4.1 percent over the 4 quarters of 1983 -- the smallest increase in more than a decade. For 1984, the increase is projected to be 5.0 percent.

Real GNP growth has been restored to a strong, positive track. The 9.7 percent annual rate increase in the second quarter was the largest since 1978 and was followed by a 7.6 percent gain in the third quarter. The initial indication is that real growth for 1983 was a strong 6.1 percent, measured fourth-quarter to fourth-quarter, and real GNP growth is projected at 4.5 percent between the fourth quarter of 1983 and the fourth quarter of 1984.

For 1985 through 1988, we have projected real GNP to grow at about 4.0 percent annually.

These growth rates should assure a substantial drop in unemployment, the true indicator of recovery. Because of the unexpectedly sharp plunge in unemployment in recent months, the employment rate for 1984 is now projected at 7.8 percent and, therefore, 1.1 percentage point below the 8.9 percent projected in the review we made in July, the midsession review.

Over the course of 1983, our strengthening economy put 4 million more people into jobs.

Additionally, business and industry plan to boost spending on new plants and equipment by a strong 9.4 percent in 1984. This should provide even more additions to American payrolls.

We see further good news in the area of interest rates. Interest rates have dropped from their all-time high of 21-1/2 percent in late 1980 to 11 percent currently, and we believe they should trend lower this year, and in the years ahead.

Clearly a growing optimism reflects widespread recognition that investment fundamentals are better that they've been in over a decade. And this is precisely why I wanted to discuss the recoverying economy at a hearing on financial services deregulation. The climate is right, the marketplace is poised, and there could be no better, nor more appropriate time for Congress to consider this issue.

To quote historian Carl Becker: "The primary aim of all government regulation of the economic life of the community should be, not to supercede the system of private economic enterprise, but to make it work." We are determined today and in the months ahead to "make it work."

PREFACE

Your proposal, Mr. Chairman, the "Financial Services Competitive Equity Act" represents a comprehensive approach to the issue. The passage of the Garn Bill would significantly benefit consumers, as well as providers, of financial services.

I would like to limit my remarks today to an overview of the issues we believe are most significant and the principal differences between pending proposals and the Administration's "Financial Institutions Deregulation Act" or FIDA. I have submitted, and you have before you, a more detailed statement.

NEED FOR NEW FINANCIAL DEREGULATION LEGISLATION

The most widely used description of financial industry regulation today is that of a "crumbling wall." Indeed traditional barriers between banking, insurance, securities and thrift institutions are rapidly becoming non-existent. But is that necessarily a bad thing? Are Glass-Steagall or McFadden and Douglas, for example, still necessary given the context of today's automated society? Those are just some of the questions that we will all be wrestling with in the days and months ahead.

FIDA, like the other proposals on the table before you, was born out of a need to simultaneously foster and channel the marketplace's competitive instincts.

The range of direct competitors to banks and thrifts has increased dramatically in recent years. The ability of the unregulated financial services firms to respond innovatively and rapidly to market changes has blurred the distinction between traditional banking and non-banking services. Consider the well-documented examples of such non-banking firms as Sears-Roebuck, Merrill Lynch, Shearson/American Express, and Prudential-Bache which are rapidly approaching the day when they will be financial supermarkets.

These non-banking firms, which are not subject to regulation restricting their activities, are applying increased pressure on our traditional depository institutions, by soliciting the institutions' more attractive and profitable business for themselves. This increased competition is reducing the depositories' revenues and their profit margins. In addition to

decreasing revenues, depository institutions are also faced with a less-regulated, and therefore more costly, market for deposit funds.

The combination of these two factors -- increasing costs and decreasing revenues -- is exerting pressure on net interest margins.

Consequently, these institutions are forced to seek out supplements for their old businesses, based on costly "brick-and-mortar" branches. They are attempting to broaden their product lines, especially into securities and insurance activities, in order to remain competitive, but find their hands tied by outdated and unnecessary regulation.

And what about the consumers of today? They are much more sophisticated than the consumers of a decade ago. They demand, and expect to receive, major benefits from a more innovative and responsive financial services marketplace. The question is the supermarket versus the corner grocery store. The answer is: Both can and will survive in a competitive, deregulated environment; in a free market both will find an appropriate niche.

Only as more firms are able to offer consumers a wider variety of financial products at competitively lower prices and with greater convenience, will their new needs be satisfied.

To illustrate this point, let me cite a few examples of instances where financial product deregulation has benefited consumers through decreased costs.

First, depository institutions are rapidly becoming a major factor in the discount brokerage business -- brokers which offer their retail customers the lowest commission rates on broker transactions. Customers will clearly benefit as this efficient form of buying and selling securities becomes more readily available.

And, in the insurance field, we see one of the more inexpensive and convenient forms of life insurance on the market today, offered by mutual savings banks in New York, Connecticut and Massachusetts.

Let me emphasize: The Administration believes that product deregulation, such as the service powers of financial institutions and their holding companies, must receive priority consideration by Congress. Once this issue has been appropriately addressed, then the question of regulatory structure and regulatory responsibility -- currently under study by a Task Group chaired by Vice President Bush -- should become the subject of serious Congressional attention.

ADMINISTRATION POSITION ON S. 2181 AND S. 2134

Turning, then, to the issue at hand, I would like to first commend both Chairman Garn and Senator Proxmire on their respective bills, S. 2181 and S. 2134, to deregulate depository institution holding companies. Both proposals go a long way toward focusing the debate on this important issue. Only through debate and discussion can there come compromise, consensus and -- eventually -- legislation we can all live with.

However, of the two proposals, the Administration is supportive, in general, of Sen. Garn's S. 2181 as the more appropriate approach to financial industry deregulation.

FIDA and S. 2134

S. 2134, introduced by Senator Proxmire, is similar to FIDA in that it adopts FIDA's holding company approach to the deregulation of depository institutions.

- We are pleased Senator Proxmire recognizes this structure for we are committed to the need to expand services through a holding company, not the depository institution. However, we feel that S. 2134 is too limited in scope and does not go far enough toward enhancing the ability of depository institutions to compete in the modern financial world.

Specifically, the bill would only authorize securities activities for bank holding companies, and would not authorize them to engage in insurance or real estate activities or activities determined to be "of a financial nature." By omitting these activities, S. 2134 fails to provide a regulatory framework to allow banks to keep pace with a rapidly changing financial environment.

Furthermore, S. 2134 continues to permit broader thrift service corporation powers, thereby encouraging the competitive inequality that exists between banks and thrifts. We would prefer to support a more comprehensive proposal, such as S. 2181, that creates a "level playing field" for the financial services industry.

FIDA and S. 2181

The Administration supports the overall thrust of the Garn Bill as a substitute for FIDA. Title I of that bill is based on the Administration's FIDA proposal.

Its major provisions would substantially deregulate the range of financial services that can be offered by depository institution holding companies -- largely along the lines of FIDA. We fully support the expansion of holding company activities provided in this bill.

There are, however, a number of important differences between Title I and FIDA. The more significant of these differences involve:

1) An exemption from activities restrictions for a unitary savings and loan holding company; the subsidiary of which is a "qualified thrift lender;"

2) A provision which specifically authorizes a "non-bank" bank -- a "consumer bank;"

3) A limitation on the size of combinations of holding companies and other financial intermediaries; and, finally,

4) Stronger anti-tying provisions of the Bank Holding Company Act.

"Qualified Thrift Lender"

The Administration is prepared to support, with appropriate modifications, the provision in the Garn bill for a "qualified thrift lender" which could be owned by any kind of firm, even though this represents a significant change from FIDA.

We are concerned, however, that the exemption be kept as narrow as possible to avoid abuse and essentially be tied, quite tightly, to residential real estate lending. In this respect, we would recommend that the only thrifts to be considered qualified thrift lenders be those that have only a very small portion of their assets invested in non-residential real estate loans, and that this be the only way to qualify for qualified thrift lender status.

In addition, we recognize that mutual savings banks are, historically, sufficiently unique as to justify a different "test." We would recommend that in order for these thrifts to be qualified thrift lenders, they should eventually be required to have the same percent of their loans in residential real estate as savings and loans, but should be given a generous time period to reach that required level.

Consumer Banks

Perhaps the most intriguing element of the Garn bill is the concept of a "consumer bank."

FIDA, through its definition of a bank, would have closed the non-bank bank loophole by subjecting any company that owns a Federally-insured bank to the BHCA. The Garn bill, on the other hand, uses essentially the same definition of a bank, but specifically excludes from this definition a "consumer bank." The Garn bill defines a consumer bank in general to mean a bank that does not make commercial loans.

As a result, securities firms, finance companies, and many others could enter the banking business by purchasing a consumer bank, yet would not be subject to the limitations of the Bank Holding Company Act.

Thus while FIDA would have closed the loophole completely, the Garn bill explicitly leaves it open.

The Administration has not yet taken a final position on the consumer bank issue.

There is some appeal to any approach which eliminates regulation at the holding company level, and this would be the effect of the consumer bank proposal, were it ultimately adopted.

Accordingly, we support continued debate and discussion of the advantages of the consumer bank as well as further specification of difficulties in its operational scope and potential restrictions.

Anti-Tying Provisions

We note that the Garn bill includes stronger anti-tying provisions than those contained in FIDA. While the problem of potential tie-in arrangements was addressed in the Administration's bill, many affected parties have argued that stricter measures are required. Taking these arguments into account, the Adminstration endorses the Garn bill's stronger anti-tying language for all depository institutions, including thrifts and consumer banks.

Size Limitations

On the subject of size limitations, FIDA authorizes bank holding companies to acquire, without size limitations, any company engaged in insurance, securities, real estate, except for a five (5) percent of capital limitation, or other permissible non-bank activities.

Likewise, the Garn bill authorizes holding companies to engage in these activities but prohibits combinations between depository institutions with three-tenths of one percent of U.S. domestic deposits and a company or companies engaged in these activities if the resulting holding company has an investment in any one such activity that exceed 25 percent of the company's consolidated capital. We understand this would affect approximately the 25 largest banks.

The Administration is not convinced that "bigness is badness," or that current anti-trust laws are inadequate. Therefore, we do not support any restrictions on institutions' size other than those under existing anti-trust provisions.

OTHER ISSUES IN THE GARN BILL

Again, I remind you that you have before you my written statement which goes into greater detail on each of the additional sections of Senator Garn's proposal, but I would like to touch very briefly on several specific issues.

Interest on Demand Deposits

The Administration supports the payment of interest on demand deposits and has provided legislation on this subject.

We do however, believe that demand deposit deregulation should be viewed within the context of a commitment to more comprehensive product deregulation. That is in the context of all of the deregulatory provisions of the Garn bill.

As I discussed earlier, the deregulation of deposit liabilities puts increasing pressure on a bank's net interest margin, and product expansion will become progressively more important to the economic well-being of bank and thrift organizations.

Interstate Banking

The question of interstate banking has been an important and controversial one facing policymakers for many years.

We are especially pleased to see that a number of concrete proposals have been introduced to address this question. In addition to this section of the Garn bill, we applaud the fact that Senators D'Amato and Mattingly also have introduced bills calling for some liberalization of geographic restrictions.

We believe it is essential that geographic restrictions be brought into conformity with the realities of the modern marketplace. This proposal, Title X of the bill, is an important first step toward this goal. It respects the rights of states and preserves the dual banking system. And it further encourages innovation and experimentation as a possible prelude to nationwide banking.

Today we see several examples of states or groups of states, which are taking the initiative on the issue of interstate banking, enacting in some cases, reciprocal banking agreements as between New York and Maine. These actions threaten to preempt discussion on the larger more important issue -- a national policy on interstate banking.

The Administration's preference would be to see enacted a nationwide policy for interstate banking activities. However, in

lieu of a national approach, we would support state initiatives in this area.

Interest on Reserves

Title IV of this bill would permit depository institutions to earn interest on their required reserves held against money market deposit accounts (MMDAs) and Super-NOW accounts. This proposal, which is designed to make MMDAs and Super-NOW accounts more competitive with money market funds, would help depository institutions achieve greater competitive equity and enable depositors to obtain a market rate of interest.

The Federal Reserve has estimated that the initial annual revenue reduction would be $125 million and that this figure would rise over time as deregulation proceeds and these types of deposits become more important. For this reason, the Administration would only be able to support an approach which does not increase a deficit which is already much too large.

CONCLUSION

In conclusion, Mr. Chairman, I want to again emphasize the need for legislation on holding company deregulation, as well as our conceptual support for your proposal. We need action. And we need it this year. We in the Federal Government are way behind the private sector in this area. We have a problem crying out for a solution. Senator Garn's bill, which we have been discussing today, is certain to set the framework for answering many questions and solving many of the problems raised.

Let me leave you with this final thought. As Winston Churchill once said: "Some see private enterprise as a predatory target, others as a cow to be milked, but few are those who see it as a sturdy horse pulling a wagon." Mr. Chairman, I think we are in agreement that private enterprise is indeed a sturdy horse, pulling this country toward greater prosperity.

We stand ready to work with you, your Committee and the Congress in any way we can, to further deregulate the financial industry -- for the good of the country and its citizens.

* * * *

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 IMMEDIATE RELEASE January 16, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,401 million of 13-week bills and for $ 6,400 million of 26-week bills, both to be issued on January 19, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 19, 1984			26-week bills maturing July 19, 1984		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	8.78%	9.13%	97.781	8.90%a/	9.47%	95.501
High	8.84%	9.19%	97.765	8.92%	9.50%	95.490
Average	8.82%	9.17%	97.771	8.92%	9.50%	95.490

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

Tenders at the high discount rate for the 13-week bills were allotted 55%.
Tenders at the high discount rate for the 26-week bills were allotted 74%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 242,070	$ 42,070	$ 149,125	$ 39,125
New York	12,760,345	5,158,195	15,138,075	5,252,295
Philadelphia	31,625	31,625	20,115	20,115
Cleveland	58,050	42,050	33,015	33,015
Richmond	65,145	61,095	89,690	64,090
Atlanta	52,515	52,515	46,050	45,530
Chicago	1,434,330	315,830	1,324,020	266,320
St. Louis	91,320	60,920	97,605	60,605
Minneapolis	17,950	15,700	27,995	19,735
Kansas City	63,150	62,650	68,085	57,945
Dallas	33,150	33,150	21,180	21,155
San Francisco	946,275	220,265	1,026,010	138,010
Treasury	304,525	304,525	382,510	382,510
TOTALS	$16,100,450	$6,400,590	$18,423,475	$6,400,450
Type				
Competitive	$13,872,675	$4,372,815	$15,511,855	$3,688,830
Noncompetitive	1,116,645	1,116,645	1,078,620	1,078,620
Subtotal, Public	$14,989,320	$5,489,460	$16,590,475	$4,767,450
Federal Reserve	1,096,130	896,130	1,000,000	800,000
Foreign Official Institutions	15,000	15,000	833,000	833,000
TOTALS	$16,100,450	$6,400,590	$18,423,475	$6,400,450

1/ Equivalent coupon-issue yield.

R-2491

TREASURY NEWS

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

STATEMENT BY
R.T. MCNAMAR
IN RESPONSE TO
REGULATIONS ISSUED BY THE FDIC/FHLBB
CONCERNING BROKER DEPOSITS
Monday, January 16, 1984

"The Treasury Department has strong reservations about the action taken today today by the FDIC and the FHLBB, which would effectively prohibit broker deposits, a potentially viable and cost effective source of funds for well-managed small- and medium-sized banks and thrifts.

We recognize that problems may exist with some current brokered deposit practices. For example, weak institutions may use brokered deposits in an unsafe and unsound manner. And, federal deposit insurance may be effectively extended to an ever increasing portion of total deposits beyond Congressional intent. However, we also recognize that the use of brokered deposits can provide significant benefits to both depository institutions and consumers.

We are concerned that the FDIC and FHLBB's proposed regulation is more severe than what is needed to address the situation. Moreover, the regulators do not yet even know the dimension of the problem since recently imposed requirements to report brokered deposits have not yet even taken effect.

The unsound use of brokered deposits by poorly managed institutions can be handled as an individual supervisory matter. By contrast, the proposed regulation may disadvantage well-managed small banks and thrifts to the advantage of large institutions, which will continue to be able to attract these funds.

While I agree that the federal deposit insurance funds should be concerned about an unwarranted extension of coverage beyond the Congressional intent, the proposed regulation does not appear to be the only solution.

We would prefer a more focused solution, one that would not eliminate the benefits associated with brokered deposits for consumers and small- and medium-sized depository institutions. Interested parties have 45 days to comment on these proposed regulations. We hope the FDIC and FHLBB will pay close attention to the comments and consider all alternatives before taking final action."

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R-2492

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.

January 17, 1984

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $12,800 million, to be issued January 26, 1984. This offering will provide $ 525 million of new cash for the Treasury, as the maturing bills were originally issued in the amount of $12,276 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 6,400 million, representing an additional amount of bills dated October 27, 1983, and to mature April 26, 1984 (CUSIP No. 912794 EW 0), currently outstanding in the amount of $ 6,022 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 6,400 million, to be dated January 26, 1984, and to mature July 26, 1984 (CUSIP No. 912794 FP 4).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 26, 1984. In addition to the maturing 13-week and 26-week bills, there are $7,527 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Federal Reserve Banks, as agents for foreign and international monetary authorities, currently hold $1,582 million, and Federal Reserve Banks for their own account hold $2,823 million of the maturing bills. These amounts represent the combined holdings of such accounts for the three issues of maturing bills.

Tenders from Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities will be accepted at the weighted average 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 $1,302 million of the original 13-week and 26-week issues.

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

R-2493

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, prior to 1:30 p.m., Eastern Standard time, Monday, January 23, 1984. 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.

A noncompetitive bidder may not have entered into an agreement, or may not make an agreement with respect to the purchase or sale or other disposition of any noncompetitive awards of this issue in this auction prior to the designated closing time for receipt of tenders.

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 $1,000,000 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 January 26, 1984, in cash or other immediately-available funds or in Treasury bills maturing January 26, 1984. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

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

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

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 10:30 a.m. MST
January 16, 1984

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:

It is a pleasure to have an opportunity once again to present the Administration's views on the financial reform proposals now pending before Congress.

More than anyone else, Mr. Chairman, you are to be commended for your timely response to the legitimate demands for restructuring the Nation's financial marketplace. In 1982 you, in cooperation with Congressman St Germain, were responsible for the achievement of landmark financial reform legislation -- the "Garn-St Germain Depository Institutions Act of 1982". Your current omnibus legislation -- the "Financial Services Competitive Equity Act" (FSCEA, S. 2181) -- represents another comprehensive and ambitious proposal, the enactment of which would benefit significantly the consumers, as well as the providers, of financial services. You and your Committee are to be congratulated for your efforts.

PREFACE

I would like to limit my remarks today to an overview of the issues we believe are most significant and the principal differences between pending proposals and the Administration's Financial Institutions Deregulation Act (FIDA, S. 1609). At a later date I understand we will be given an opportunity to present our views in greater detail.

R-2494

However, I do want to make a number of points clear at the outset, so that they won't be lost sight of in our subsequent discussion. First, I want to emphasize that there should be no doubt whatsoever that the Administration supports the overall thrust of the "Financial Services Competitive Equity Act" as a substitute for FIDA. Even since I last spoke to this Committee on July 18, 1983, market pressures have continued to exert themselves, making it all the more important that we arrive at an equitable resolution of the issues of financial deregulation. S. 2181, like FIDA, would accomplish that deregulation through the expansion of the product powers of depository institution holding companies, which remains the preferred approach of the Administration.

Secondly, the Administration is prepared to support the provision in FSCEA for a "qualified thrift lender" which would be exempt from the restrictions of the bill even though this represents a departure from FIDA. As I discuss in more detail later in my statement, we are concerned only that this exception be kept sufficiently narrow to accomplish its purpose and to avoid abuse.

Finally, we note that S. 2181 includes stronger anti-tying provisions than those contained in FIDA. The problem of potential tie-in arrangements was addressed in the Administration's bill, but many affected parties have since argued that some strengthening of our original provisions is necessary. It seems to us that FSCEA responds appropriately to those concerns.

FINANCIAL RESTRUCTURING ISSUES

The issues that need to be addressed to promote competitive equity in the financial services industry are complex and in many cases controversial, giving rise to a number of fundamental questions. For example:

-- What are the essential purposes of the Bank Holding Company Act (BHCA), the Savings and Loan Holding Company Act and the Glass-Steagall Act?

-- How can these laws be modified to give providers and consumers of financial services the benefits of increased competition and less onerous regulation without diminishing the essential objectives of regulation?

-- If there is reason to draw a line between "banking" and "commerce", where should this line be drawn?

These are difficult questions that Congress must answer if it is to keep pace with a dynamic financial services environment and set the stage for equitable competition in the future. In this respect, I would like to commend Chairman Garn and Senator Proxmire on their respective bills, S. 2181 and S. 2134, to deregulate depository institution holding companies. Their proposals make significant progress in focusing the debate on these issues. Hopefully they may provide a basis for achieving consensus on legislation.

While the Administration does not agree in all respects with the solutions proposed by S. 2181 and S. 2134, we clearly see the prospect for workable legislation in the underlying approaches taken in these bills. FIDA initiated the discussion and now it will continue in the context of the Garn omnibus bill. I am confident that Congress, recognizing the urgent need for financial services reform, will be able to work constructively with us and all interested parties to arrive at acceptable compromises that serve the best interests of the public.

Also, I want to emphasize that we believe that product deregulation, i.e., the service powers of financial institutions and their holding companies, should receive priority consideration by Congress. Once this issue has been satisfactorily addressed, then the questions of regulatory structure and regulatory responsibility -- currently under study by a Task Group chaired by Vice President Bush -- should become the subject of serious Congressional attention.

THE NEED FOR NEW FINANCIAL DEREGULATION LEGISLATION

The need for the type of legislation we are considering today is evident in the financial markets all around us. For one thing, our traditional depository institutions are being faced with a less-regulated market for deposit funds. At the same time, many non-banking firms are entering the traditional markets of depositories, soliciting as best they can the more attractive and profitable business for themselves. The combination of these two factors -- increasing costs and decreasing revenues -- is placing pressure on net interest margins and calling into question the viability of commonplace depository institution distribution systems and restricted product lines. As a consequence these institutions are seeking out substitutes for their old and costly brick-and-mortar branches, and they are attempting to broaden their product lines (especially into securities and insurance activities) in order to remain competitive in the future.

Recent years also have witnessed certain developments that are progressively minimizing the traditional distinctions between banking and nonbanking services. Diversified nonbanking firms such as Sears-Roebuck, Merrill Lynch, Shearson/American Express, and Prudential-Bache are rapidly approaching the point where they can offer one-stop financial shopping. Of critical importance to the diversification plans of many of the non-regulated financial institutions has been the acquisition of a depository institution. The emphasis in this respect has been on the so-called nonbank bank -- a source of insured deposit funds with direct access to the payments mechanism.

Finally, a progressively more sophisticated consumer is demanding, and expects to receive, major benefits from a more innovative and responsive financial services marketplace. Only as more firms are able to offer consumers a wide variety of financial products at competitively lower prices and greater convenience will the new needs of consumers be satisfied.

All of these institutional and consumer "initiatives" have tended to destabilize somewhat our financial marketplace, and in some cases have stimulated state legislatures and Federal regulators to take their own, often uncoordinated, measures to deregulate the financial services industry. Without action by Congress this type of chaos will become commonplace and, ultimately, interests will be put in place that will make comprehensive and balanced reform next to impossible.

IMPORTANCE OF THE HOLDING COMPANY REQUIREMENT

I am particularly pleased that both S. 2181 and S. 2134 would adopt the holding company approach the Administration has been advocating for several years and has embodied in its current FIDA proposal. All three of these bills would require nonbank or non-thrift activities to be performed through a holding company or its nondepository affiliates and not in the depository institution itself. There are several reasons why the Administration believes strongly that the holding company structure is the only acceptable means of expanding nonbanking activities.

Banks and thrifts are unique financial intermediaries affected with a public interest. As such, they are Federally-supervised, have access to a Federal lender of last resort, and have some portion of their deposits Federally insured. The Administration does not believe that these institutions should directly engage in new and risky activities that cannot be regulated effectively by a single bank regulatory agency. This would place an inappropriate supervisory and insurance burden on the Federal Government. Moreover, the unique status of depository institutions enables

them to raise money in the private financial markets at a lower cost than most other borrowers by allowing the payment of lower explicit returns and/or by enabling them to overcome more easily the caution of potential investors in placing their funds with the institutions. These institutions should not be able to use the lower cost funds to engage directly in activities with non-depository institution competitors or to capitalize direct subsidiaries at advantageous transfer costs.

The Administration, in addition, does not believe that non-depository institution activities should be conducted through a subsidiary or service corporation in which a bank or thrift has a direct equity investment. Again, 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 non-depository institution competitors and at a cost advantage to the bank or thrift. In addition to permitting equivalent regulation of functionally equivalent activities, the adoption of the holding company approach as the underlying principle of depository institution deregulation would remove many of the inconsistencies and anomalies that currently confuse the issue of bank deregulation.

DIFFERENCES BETWEEN THE "FINANCIAL SERVICES COMPETITIVE EQUITY ACT" AND FIDA

Title I of S. 2181 is based on the Administration's FIDA proposal. Its major provisions would substantially deregulate the range of financial services that can be offered by depository institution holding companies largely along the lines of FIDA. We fully support the expansion of holding company activities provided in this bill.

Even though Title I is based on the Administration's holding company model, there are a number of important differences. The more significant of these differences involve (1) an exception from bank holding company regulation for a "consumer bank", (2) an exemption from activities restrictions for a unitary savings and loan holding company the subsidiary of which is a "qualified thrift lender", (3) a limitation on the size of combinations of holding companies and other financial intermediaries, (4) a limitation on branching and interstate acquisitions, and (5) more stringent anti-tying provisions.

Consumer Banks. FIDA defines "bank" for purposes of the BHCA to include (1) any FDIC-insured bank, (2) any institution eligible for FDIC insurance, and (3) any institution that both accepts demand deposits that the depositor may withdraw by check

or similar instrument for payment to third parties and engages in the business of making commercial loans. This would have closed the nonbank bank loophole by subjecting any company that owns a Federally-insured bank to the BHCA.

S. 2181 uses essentially the same definition of bank for purposes of the BHCA but specifically excludes from this definition any "consumer bank". The bill defines a consumer bank in general to mean a bank that does not engage in the business of making commercial loans. Because the bill excepts consumer banks from the definition of bank, companies that use only these institutions would not be subject to the BHCA, and consequently would be free to engage in any nonbanking activity, including securities activities. However, the Glass-Steagall Act would continue to prohibit affiliates of Federal Reserve member banks, even if they are consumer banks, from engaging in certain securities activities, including corporate underwriting, if that was their principal activity. Thus, while FIDA would have closed the nonbank bank loophole completely, S. 2181 explicitly authorizes this type of nonbank bank. This could create some competitive inequity, since firms with only consumer bank subsidiaries could offer Federally-insured deposits through their consumer bank subsidiaries, together with any other product or service, while traditional bank holding companies whose banks are not consumer banks could offer only limited services.

There can be no doubt that Federal deposit insurance will provide consumer banks with a competitive advantage. This is so because their cost of funds will be relatively lower than that of non-insured competitors and, unlike most of their insured competitors, they will be exempted from the restrictions of this legislation. One of those restrictions, of course, involves the more stringent anti-tying provisions deemed necessary for other Federally-insured depositories affiliating with non-regulated entitites. On balance, the consumer bank device will enable many diversified firms to get into the banking business, and the consumer bank itself will be able to utilize Federal deposit insurance to its competitive advantage, without much of the Federal regulatory burden imposed through holding company regulation.

The Administration has not yet taken a final position on the consumer bank issue. There is some real appeal to the concept of eliminating completely the regulation of holding companies for depository institutions, which is the effect of authorizing a consumer bank, and we are interested in hearing additional discussion of the advantages of the consumer bank as well as further specification of its operational scope and restrictions. Nevertheless, the Administration remains concerned about the problem areas discussed above.

Qualified Thrift Lenders. FIDA subjects both unitary and multiple savings and loan holding companies to the restrictions on

nonbanking activities of the Savings and Loan Holding Company Act, which would be changed so that they are the same as those under the BHCA. S. 2181, however, provides an exemption from the activities restrictions for any unitary savings and loan holding company the sole thrift subsidiary of which is a "qualified thrift lender". A qualified thrift lender under S. 2181 is defined to mean a thrift (1) with no more than 25 percent of its assets invested in commercial loans, nonresidential real estate loans, property for commercial leasing purposes, and floor planning or inventory loans, or (2) with not less than 60 percent of its assets invested in domestic residential mortgage lending, including mortgage-backed securities, loans, and property used by a thrift in its business. Because a thrift may qualify under either test, a company owning a thrift that makes no housing loans may engage in any activities it chooses.

In effect, this proposal is a consumer bank exemption for unitary savings and loan holding companies. It does not require any residential real estate lending as long as commercial loans do not exceed 25 percent of the institution's portfolio (and would permit up to 40 percent commercial loans if real estate lending amounts to 60 percent of the portfolio). Because a qualified thrift lender has five times the commercial lending authority of the consumer bank and there is no requirement that it make any residential mortgage loans, it is likely to be a preferable way for a diversified financial services firm to get into the banking business. Indeed, many one-bank holding companies may be tempted to turn their banks into qualified thrift lenders in order to avoid holding company regulation.

The Administration is not opposed to providing for a "qualified thrift lender" exemption but believes that, in the interest of competitive equity, the exemption should be kept as narrow as possible and essentially be tied quite tightly to residential real estate lending. In this respect, we would recommend that thrifts be considered qualified thrift lenders only on the basis that they be allowed to have only a small portion of their assets invested in loans other than residential real estate, and that this be the only exemption for a qualified thrift lender.

In addition, we recognize that savings banks are sufficiently unique to justify a different "test", such as, for example, combining a requirement that a specified portion of their loans be in residential real estate along with a generous time period for phasing-in to the qualified thrift lender test suggested above.

With regard to service corporation activities, FIDA generally restricts the service corporation activities of all Federally-chartered banks and stock thrifts to those of a clerical nature or those related to the financial institution's internal operations.

Recognizing that thrifts in mutual form are unable to expand their nondepository activities through a holding company, FIDA permits them to continue to invest in service corporations that engage in any thrift service corporation activities authorized on July 1, 1983. These activities include clerical activities as well as various other activities such as acquiring, developing, and managing real estate, engaging in interest-rate futures transactions, and selling insurance.

S. 2181 provides the same service corporation authority as FIDA, but also permits qualified thrift lenders to invest up to three percent of their assets in a service corporation without any statutory limitations on the service corporation's activities. This special authority provided only to qualified thrift lenders is the same liberal authority provided under current law to all Federal thrifts, whereby the Federal Home Loan Bank Board determines the extent of permissible activities. Thus, under S. 2181, qualified thrift lenders would be authorized to engage, through their service corporations, in more activities than banks and stock-thrifts, which are generally limited to clerical and internal operations activities, and even in more activities than mutual thrift service corporations (that are not also qualified thrift lenders), which are limited to such activities permissible on July 1, 1983.

We have serious reservations about this broad service corporation exemption because it permits some financial service firms to diversify within the depository institution rather than through the holding company and thereby creates competitive inequities with firms subject to holding company regulation. We believe that the limitations on service corporation activities of qualified thrift lenders should embody the same principles as FIDA, with appropriate differences being made for stock thrifts and mutual thrifts.

Size Limitations. FIDA authorizes bank holding companies to acquire, without size limitations, any company engaged in insurance, securities, real estate (except for a five percent of capital limitation), or other permissible nonbank activities, and permits companies of any size engaged in these activities to acquire banks. S. 2181 likewise authorizes holding companies to engage in these activities but prohibits combinations between depository institutions with three-tenths of one percent of U.S. domestic deposits and a company or companies engaged in these activities if the resulting holding company has an investment in any one such activity that exceeds 25 percent of the company's consolidated capital. We understand that this would cover approximately the 25 largest bank holding companies.

These restrictions have been proposed in response to public policy concerns over the potential for what has been called "undue concentration of resources". Many believe that the current anti-trust laws are inadequate to prevent such concentrations.

However, the Administration is not convinced that size is inherently bad or that current anti-trust laws are inadequate and, accordingly, we do not believe that any restriction on institutions' size other than those under existing anti-trust provisions is necessary.

Geographic Limitations. FIDA authorizes bank holding companies to acquire thrift institutions without placing an interstate limitation on such acquisitions. Current law, which would not be changed by FIDA, would prohibit the acquisition of thrifts in more than one state. Thus, the effect of FIDA would be to allow a bank holding company to acquire a thrift or thrifts located in one state outside of the state where its bank operations are located.

S. 2181 would close this means of interstate expansion by making the acquisition of a thrift by a bank holding company subject to the Douglas Amendment prohibition on interstate banking as if the thrift were a bank. Accordingly, a bank holding company could acquire a thrift only in its home state or in a state that specifically authorizes such an acquisition by statute. The bill also subjects prospectively thrift subsidiaries of bank holding companies to McFadden branching restrictions. Thus, a thrift subsidiary of a bank holding company could only establish additional branches at locations where a national bank would be authorized to establish branches. FIDA contains a similar authorization for savings and loan holding companies to acquire banks without an interstate limitation. Again, S. 2181 would subject these acquisitions to the Douglas Amendment so as to prevent the expansion of a savings and loan holding company into an additional state through a bank acquisition. Supervised acquisitions made in financial emergencies would not be subject to these restrictions.

The question of geographic restrictions is important and controversial. We believe that geographic restrictions ought to be brought into conformity with the realities of the modern marketplace as soon as possible and we are ready to work with the Congress to reach a national solution to this issue. In the interim, we are not inclined to object to these provisions of S. 2181 and we support the regional experimentation provided under Title X.

Anti-tying Provisions. While the BHCA and the Home Owners' Loan Act contain general prohibitions against a bank or thrift tying its services to other services offered by the depository or its holding company affiliates, the insurance industry and others have expressed concerns that current law does not provide standards sufficiently specific to ensure against increased potential abuses, particularly in connection with the offering of both traditional banking services and insurance underwriting or brokerage services.

While FIDA contains a provision permitting trade associations to bring actions for injunctive relief under the anti-tying provisions on behalf of any of their members, it does not add specific restrictions on how insurance may be sold. Senator Garn's bill includes FIDA's amendment but also adds several new provisions intended to protect against the tying of services by holding companies. These provisions would require a bank (1) to explain in writing to a credit customer that credit insurance may be purchased from an independent insurer, (2) to give a written commitment that credit will be extended before soliciting insurance to provide a borrower with a written statement stating reasons for a rejection, (3) not to reject unreasonably a contract for insurance and to provide a borrower with a written statement stating reasons for a rejection, (4) not to require payment of a separate charge by a borrower, mortgagor, purchaser, insurer, broker or agent for handling an insurance contract required as security, or for substituting the insurance policy of one insurer for another, (5) not to require any procedures or conditions of duly licensed agents, brokers, or insurers not customarily required of agents, brokers or insurers connected with the bank, (6) not to disclose, without prior written consent, information on credit insurance, and (7) to accept cancellation of a credit insurance contract if notified by the borrower within 30 days and refund the unearned portion of the premium.

Under current law thrift institutions are subject to essentially the same restrictions on tying services as are banks. Both FIDA and S. 2181 contain a provision parallel to that provided with respect to banks, authorizing trade associations to bring actions for injunctive relief under the anti-tying provisions on behalf of any of their members. The additional Garn bill restrictions, however, are not made applicable to thrifts.

It should be noted that under FSCEA consumer banks, because they are excluded from the definition of bank, would not be subject to any of the anti-tying provisions of the BHCA.

Recognizing the concerns of the insurance and other industries about tying, the Administration would not oppose FSCEA's stronger anti-tying provisions for all depository institutions, including thrifts and consumer banks, provided that these provisions did not amount to unnecessary re-regulation.

DIFFERENCES BETWEEN THE "DEPOSITORY INSTITUTIONS HOLDING COMPANY ACT AMENDMENTS OF 1983" AND FIDA

S. 2134, introduced by Senator Proxmire, is similar to FIDA in that it adopts FIDA's definition of "bank" for purposes

of the BHCA, authorizes bank holding companies to engage through nonbanking affiliates in most securities activities other than corporate underwriting, and streamlines regulatory review procedures. It differs from FIDA with respect to (1) the extent of permissible activities, and (2) the applicability to savings and loan holding companies and bank and savings and loan service corporations.

Permissible Activities. The bill would not authorize bank holding companies to engage in new insurance or real estate activities or activities determined to be "of a financial nature". Although new securities activities are an important first step in creating competitive equity between banks and other financial service firms, we believe FIDA's new insurance and real estate powers are a logical extension of current authority that would provide consumers with the benefits of increased competition and diversification. Moreover, by omitting "financial nature" activities, S. 2134 fails to provide a regulatory framework by which banks could keep pace with future developments in the financial services industry.

Powers of Savings and Loan Holding Companies and Bank and Savings and Loan Service Corporations. S. 2134 does not provide parallel treatment of bank and thrift holding companies. Thus, in our view it disregards the fundamental similarity of banks and thrifts under recent legislation and, as a result, perpetuates a regulatory imbalance based on industry classification.

The bill eliminates the unitary thrift holding company exemption where the subsidiary thrift is not fully committed to the provision of credit for the purchase of residential housing or where a parent holding company seeks to integrate the thrift's operations with those of the parent. This provision has the beneficial effect of further restricting the use which may be made of the qualified thrift lender or the unitary S&L holding company exemption by diversified financial services firms, and thus prevents these institutions from offering bank-like services when bank holding companies are limited in the nonbanking services they can offer. As I have indicated above, we are prepared to accept some form of exemption for unitary thrift holding companies but believe the exemption should be narrowly drawn and perhaps include a separate test for savings banks, at least for some appropriate phase-in period.

S. 2134 continues to permit broader thrift service corporation powers, thereby endorsing a competitive disparity between banks and thrifts and creating artificial pressures for charter conversion. We have strong reservations about continuing this broad service corporation authority under current law.

OTHER TITLES OF S. 2181

Senator Garn's bill contains additional titles that address, among other issues, (1) interest on demand deposits, (2) interest on reserves, (3) preemption of state usury ceilings, (4) interstate banking, (5) credit/debit card fraud, (6) consumer lease/rental-purchase agreements, and (7) check holding practices.

Interest on Demand Deposits. The "Demand Deposit Deregulation Act" (S. 1875), which was submitted to Congress by the Depository Institutions Deregulation Committee (DIDC), is incorporated in S. 2181 as Title VIII. This Act would repeal the prohibition against payment of interest on demand deposits and would authorize the DIDC to establish rate limitations for interest on demand deposits that would be tied to NOW account rates (in order to moderate the initial cost impact on depository institutions).

While the Administration supports the payment of interest on demand deposits as a matter of principle, we believe that demand deposit deregulation should be viewed within the context of a commitment to more comprehensive product deregulation. As I discussed earlier in my statement, the deregulation of deposit liabilities puts increasing pressure on net interest margin, and product expansion will become progressively more important to the economic well-being of bank and thrift organizations.

Interest on Reserves. The "Competitive Savings Incentive Act of 1983" (S. 1750), which has been incorporated as Title IV of the bill, would permit depository institutions to earn interest on their required reserves held against money market deposit accounts (MMDAs) and Super-NOW accounts.

This proposal is designed to make MMDAs and Super-NOW accounts more competitive with money market funds. It therefore would help depository institutions to achieve greater competitive equity and enable depositors to obtain a market rate of interest. We are in sympathy with the desirability for equity in this case. However, the proposal also would entail a reduction in the Federal Reserve's payment to the Federal Treasury. The Federal Reserve has estimated that the initial annual revenue reduction would be $125 million and that this figure would rise over time as deregulation proceeds and these types of deposits become more important. For this reason, the Administration would only be able to support an approach which does not increase a deficit which is already too large.

Preemption of State Usury Ceilings. The "Credit Deregulation and Availability Act of 1983" (S. 730), which has been included as Title VII of the bill, preempts all remaining state usury ceilings on business, agricultural, and consumer loans. However, it gives states the right to reimpose interest rate restrictions at any time within three years of the date of enactment, and it leaves intact all state consumer protection laws. The bill also eliminates usury ceilings applicable to Federally-chartered credit unions.

The Administration testified in favor of this bill early last year and continues to support this element of the omnibus package.

Interstate Banking. The question of interstate banking has been a major one facing policymakers for many years. We are especially pleased to see that a number of concrete proposals have been introduced to address this question. In addition to Title X of S. 2181, we applaud the fact that Senators D'Amato and Mattingly also have introduced bills calling for some liberalization of geographic restrictions (S. 2107 and S. 2113, respectively).

The "Interstate Banking Act of 1983" -- Title X of the bill -- essentially provides the Federal Government's affirmation, for a five year period, of regional interstate banking arrangements as well as other state initiatives on the interstate banking issue.

This proposal helps to bring geographic restrictions on banking more in line with current marketplace realities. It respects the rights of states and preserves the dual banking system. It further encourages innovation and experimentation as a possible prelude to nationwide banking.

The formation of regional compacts does, however, discriminate against institutions precluded from participation. It also raises the possibility that regionally dominant institutions might be protected from outside competition. Action by individual states or groups of states also postpones the resolution of a national policy on interstate banking. The Administration's preference would be to resolve a nationwide policy for interstate banking activities, but we believe that a full resolution of this difficult question should not be allowed to impede the product deregulation initiative contained in Title I of the bill. In the absence of a national approach, however, we are inclined to support state initiatives in this area.

Credit/Debit Card Fraud. The "Credit and Debit Card Fraud Act" (S. 1555), Title IX in the bill, is designed to expand and strengthen credit card fraud statutes. Although current law treats some fraud involving stolen cards, it does not cover other areas of abuse. In addition, there is a conflict in the courts concerning whether misuse of account numbers technically constitutes fraudulent use of a credit card and is therefore prohibited by the existing criminal provisions of the Truth-in-Lending Act. Title IX would close this loophole by defining "credit card fraud" to include misuse of an actual or fictitious account number.

The Justice Department recently testified before the Senate Judiciary Committee in favor of a related bill, S. 1870, that provides penalties for credit and debit card counterfeiting and related fraud. The Administration continues to support these provisions.

Consumer Lease/Rental-Purchase Agreements. The "Consumer Lease and Rental Purchase Agreement Act" (S. 1152), Title V in the bill, amends provisions in the Consumer Credit Protection Act so that consumers will have easy access to all essential data concerning their costs and responsibilities regarding consumer leases. This legislation also would extend similar disclosure requirements for the first time to rental purchase agreements.

For the moment, at least, we are inclined to allow the Federal regulatory agencies to take the lead with respect to the policy aspects of Title V. However, we clearly will be interested in making technical comments on this proposal as it moves towards final enactment.

Check Holding Practices. The "Fair Deposit Availability Act of 1983" (S. 573), Title VI, was drafted in response to consumer concerns over relatively lengthy holds placed on checks by numerous depository institutions before making the funds available to depositors. The Act would require depository institutions to inform customers of their hold policies both at the time a person opens a new account and at the time a person deposits a check if the funds will not be available immediately. It also would require a depository institution refusing to honor a check of $250 or more to notify the depository institution at which the check was originally deposited within 24 hours. Depository institutions would be required to begin computing interest on deposits to interest-bearing accounts no later than the date on which the institution receives provisional credit for the deposit.

While we recognize that many consumers are concerned about the check holding practices of depository institutions, we do have some reservations about the policy implications and technical provisions

of this particular proposal. In this respect, we intend to forward more detailed comments to the Committee in the near future.

CONCLUSION

In conclusion, Mr. Chairman, I want to emphasize once again the need for action on holding company deregulation. We in the Administration want to thank you and your Committee for moving forward so determinedly at this time. The omnibus legislation we have been discussing today is certain to set the framework for financial deregulation in the 1980s.

Commercial banks and other financial service firms are clamoring for resolution of the competitive inequities that arise under laws no longer in touch with marketplace realities. Consumers, although less vocal on these complex issues, nevertheless stand to benefit substantially from the convenience, product proliferation, and economies we believe will inevitably result from deregulation. Federal regulators, in deference to Congressional prerogative, for the moment have postponed action on those applications that would significantly restructure the industry. Congress will serve the country well if it can use this window of opportunity to take the lead on holding company deregulation.

We in the Administration stand ready to work with the Congress in any way we can to secure rapid passage of this much needed legislation.

* * * *

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 IMMEDIATE RELEASE January 18, 1984

TREASURY TO AUCTION $8,250 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $8,250 million of 2-year notes to refund $5,648 million of 2-year notes maturing January 31, 1984, and to raise $2,600 million new cash. The $5,648 million of maturing 2-year notes are those held by the public, including $887 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $8,250 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average price of accepted competitive tenders.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $560 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-2495

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JANUARY 31, 1984

January 18, 1984

Amount Offered:
To the public .... $8,250 million

Description of Security:
Term and type of security .... 2-year notes
Series and CUSIP designation .... Series Q-1986
(CUSIP No. 912827 QK 1)
Maturity date .... January 31, 1986
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 .... July 31 and January 31
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:
Receipt of tenders .... Wednesday, January 25, 1984, prior to 1:30 p.m., EST
Settlement (final payment due from institutions)
a) cash or Federal funds .... Tuesday, January 31, 1984
b) readily collectible check ..... Friday, January 27, 1984

TREASURY NEWS

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

FOR IMMEDIATE RELEASE January 19, 1984

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $8,277 million of 52-week bills to be issued January 26, 1984, and to mature January 24, 1985, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	9.02% a/	9.85%	90.880
High -	9.04%	9.87%	90.860
Average -	9.04%	9.87%	90.860

a/ Excepting 1 tender of $50,000.
Tenders at the high discount rate were allotted 95%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 131,645	$ 50,145
New York	16,869,080	6,561,730
Philadelphia	16,940	12,790
Cleveland	101,840	45,340
Richmond	55,745	40,245
Atlanta	278,645	276,045
Chicago	1,572,960	608,240
St. Louis	112,680	77,580
Minneapolis	49,580	48,530
Kansas City	115,470	98,295
Dallas	13,815	13,815
San Francisco	1,101,995	436,045
Treasury	8,595	8,595
TOTALS	$20,428,990	$8,277,395

Type	Received	Accepted
Competitive	$18,371,630	$6,220,035
Noncompetitive	777,360	777,360
Subtotal, Public	$19,148,990	$6,997,395
Federal Reserve	1,000,000	1,000,000
Foreign Official Institutions	280,000	280,000
TOTALS	$20,428,990	$8,277,395

An additional $75,000 thousand of the bills will be issued to foreign official institutions for new cash.

R-2496

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 3:15 p.m.
Saturday, January 21, 1984

ADDRESS BY
DONALD T. REGAN
BEFORE THE
18TH COMMEMORATIVE SESSION AT
WILLIAMSBURG
JANUARY 21, 1984

Governor Robb, members of Colonial Williamsburg Foundation, members of this commemorative assembly, distinguished guests.

While my accent may not be pure enough for these distinguished surroundings, please keep in mind that although Massachusetts born, I'm a Virginian by choice, and what's even more important, a Virginia tax payer for life.

It's an uncommon honor for me to address this group -- the political descendents of our nation's first representative legislature. And the successors -- along with a few Bostonians -- to those first patriots whose bold actions more than 200 years ago paved the way for the freedoms we have today.

In this very hall we assemble in the shadows of such towering American patriots as George Washington, Thomas Jefferson and James Madison. Brave and daring men who defied tyranny and in a new-born nation established the ideals and principles on which America stands even today.

Meeting here can serve as a reminder to us all: As public officials we are charged with carrying on the American ideal; with protecting it, nurturing it and passing it on to future generations. We must never forget the events of 1765, 1774 and 1776, nor the blood that has been spilled so that we may have liberty. And we must always remember Jefferson's warning: the price of liberty is eternal vigilance.

I cannot presume that my remarks today will resound with anything near the impassioned cries for freedom and justice that were delivered in this magnificent edifice by the founding fathers of Virginia. Little prompts a people more ardently than a desire for freedom and self-determination. Yet I can say that there could be no more appropriate forum for this address than this House of Burgesses.

R-2497

Standing in this revered hall, one is tempted to talk of freedom, or courage in the face of adversity, or liberty, or some similar elevated topic. But as I thought of this occasion -- and your jobs, my job, and those jobs of the leaders of our pre-Independence era -- I was struck by another common theme -- taxes: a subject so universal as to have had that famous wag, Benjamin Franklin, complain many years ago that the only certainties in life are death and taxes.

The issue of taxes played no small role in bringing about the American Revolution and the great experiment in liberty that followed and flourishes to this day.

The Sugar Act of 1733 was the first of many hated revenue measures. The Revenue Act of 1764 caused the New York Assembly to petition Parliament, "exemption from burthen of ungranted, involuntary taxes, must be the principle of every free state" without which "there can be no liberty, no happiness, no security." The Stamp Act of 1765 was in Samuel Eliot Morrison's words "the first direct internal tax ever to be laid on the colonies by Parliament: indeed the first tax of any sort other than customs duties." The Sons of Liberty were formed, protests mounted.

Speaking of the Stamp Act, it was here in Williamsburg on May 30, 1765, that Patrick Henry, undaunted by the cries of "treason", challenged King and Parliament with those now famous words: "Caesar had his Brutus; Charles the First his Cromwell; and George the Third -- may profit by their example. If this be treason, make the most of it."

In this very hall the Virginia Assembly passed that set of resolutions which said that it had the sole and exclusive right and power to lay taxes upon the inhabitants of this Colony, who were not bound to yield obedience to any law of Parliament to tax them. It declared the act "illegal, unconstitutional, and unjust". Governor Bernard said of that action that it was "an alarm bell to the disaffected."

Indeed, at the invitation of Massachusetts, nine colonies sent delegates to New York for the first of a long series of Congresses. Then came the Townshend Acts of 1767. Townshend was Chancellor of the Exchequer -- equivalent to Secretary of the Treasury. He was known in his day, again according to Morrison,

as "a statesman who has left nothing but errors to account for his fame". Poor Townshend. He never lived to see the folly of his ways in trying to increase taxes on American citizens. Moreover, his acts caused the Boston Tea Party, followed by British reprisals in 1774 and the year following. As a direct result of that British action, came the First Continental Congress in Philadelphia in September, 1774. The rest is history. The spark was -- taxes.

And taxes continue to play a central role in the lives of the American people -- a role increasing in importance almost daily as this nation moves closer towards tackling the tough problems posed by our current system of taxation.

Taxes are as old as government. As ancient people somewhere once began to set rules for living, someone -- probably the rule makers -- felt someone else should pay: first, to have the rules made -- but not much for that; and then pay to have the rules carried out -- a lot for that! Having established the principle that individuals should pay for government, what amount, and how to impose those levies became the next problems.

Solutions to these "taxing" problems have been proposed by various governing bodies over the years. But rarely does any solution outlive the particular legislative body that constructed it. When successors assemble -- or even when the same group returns after a hopefully decent interval -- tinkering with the system, or even a major overhaul, is quickly proposed.

At this point let me say straight out: I believe our income tax system today is deeply flawed. It's losing its ability to provide sufficient revenues without imposing burdensome tax rates. It's become extraordinarily complex. And it serves more often than not as an impediment to economic growth.

Jean Baptiste Colbert, the French finance minister under Louis XIV, said, "The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing."

That's certainly one view point! But too jaded, too cynical for today. American taxpayers aren't as so many geese waiting to be plucked. But unfortunately, I do think I hear a lot of hissing out there.

Any person who works hard for income doesn't appreciate seeing much of his work -- in effect -- go to services that don't personally aid him, or services that seem to him to be wasteful, unnecessary, or squandered on another citizen, or group of citizens. So, we have a situation that has caused, at the least, bad feelings, and spawned an industry soldiered by armies of accountants and lawyers wholly devoted to the avoidance of taxes.

There aren't many people who actually like to pay taxes. But, to maintain a complex society such as ours, I believe most thoughtful people would agree that some form, and level, of taxation is necessary.

In America -- if I might draw from the Preamble to our own Constitution -- one could say that taxes are what we pay to establish justice, insure domestic tranquility, provide for the common defense, and promote the general welfare.

In a free society, taxes represent an agreement between a people living collectively and the government they install and entrust with the public good. Those taxes are, in effect, payment for services; in most cases, services that are inherently better provided by a government.

Still, even with such lofty purpose and democratic foundation, we have gone astray. To find out where we are in our tax system, let's look at where we came from. And a little later, let's look at where we might be heading, and then some thoughts on reform.

The first instance of an income tax in the United States was during the Civil War, or should I say "the War Between the States," when a graduated tax on individual incomes was imposed to help finance that conflict. The maximum rate was 10 percent.

I might mention here that prior to this war and to a large extent afterwards, the bulk of Federal revenues came from tariffs, excise taxes, and the sale of Federal land.

That income tax lasted about 10 years and various attempts to reinstitute it failed over the next 50 years or so, primarily because of Constitutional arguments.

However, Constitutional questions were removed in 1913 with ratification of the 16th Amendment -- the income tax amendment. And later that year, Congress enacted the first modern income tax.

It was designed primarily to raise revenue. It was simple and, relative to today, it imposed but a slight burden.

The 1913 Form 1040 covered about 2 pages. And this covered it all -- income, individual deductions, and business deductions. Instructions for the form could be placed on one page.

The normal tax rate after exemptions was 1 percent on taxable income up to $20,000.

Well, we're a long way from 1913. But unfortunately we're now a long way from a simple and equitable tax system. Over the years there has been an explosion of exemptions, credits, exclusions and special treatments, not to mention rate increases. Many of these provisions were enacted to promote worthwhile social and economic goals, but in moving beyond the use of taxation as a revenue source, we may have gone too far, and produced unintended results.

Too often our tax system leads taxpayers by the hand, this way or that way. It impels decision-making not on a sound productive, efficiency, or economic basis, but rather for tax avoidance purposes. It is sometimes -- in effect -- almost an industrial policy by favoring this industry or that industry. And, unfortunately, our system today has a built-in bias against saving, with the inevitable consequence of reducing the capital available for investment. The result of all this is tremendous complexity, inefficiency, distortion in the economy, and a confused and frustrated taxpayer.

In 1819, then Chief Justice of the Supreme Court John Marshall -- another Virginian -- said: "The power to tax involves the power to destroy." He was addressing Constitutional questions at the time, rather than economic matters. But that sentiment certainly could be applied to our complex economy today. In providing adequate funding for our nation, we can't overlook the ability of taxation to be a negative factor to growth and prosperity.

Is it really so curious that around the world there is a pervasive inverse correlation between tax rates and economic growth rates? Is it really so curious that nations with lower tax burdens tend to have higher employment growth? This comes as no surprise to me. And it should come as no surprise to anyone who understands the word "incentive."

Besides the powerful macroeconomic effects of our tax system, there are the effects on taxpayers. And the effects on individuals give us no less a reason to take a hard look at our system.

Growing numbers of Americans perceive some parts -- if not all -- of our Federal income tax system to be unfair. While I'm not speaking here of the patently unjust "taxation without representation" that helped propel this nation into its fight for freedom, I am speaking, nevertheless, of a critically important issue.

If taxes in a free society represent an agreement between a people and their government, then inequity -- or even the perception of inequity -- strikes at the heart of democratic society. We cannot afford to live as a people mistrustful and resentful of this most important pact.

I don't believe that our system is unfair so much by conscious design, but inadvertently by the simple evolution that has occurred over the years.

This, however, is little consolation to the taxpayer who is convinced that his neighbor of similar means pays less tax. And it's little consolation to both taxpayers who are convinced that their more affluent neighbor has less tax burden than either of them.

But, while a system replete with loopholes and shelters may raise the ire of many taxpayers, perhaps even more inequitable are excessively progressive tax rates. Many Americans feel that the more affluent should carry higher percentage tax burdens, but the modern-day system has taxpayers sailing through lower rates much too quickly, and into stifling and demoralizing high marginal rates.

And this is not a problem reserved only for the wealthy. Middle-income America -- the source of this nation's greatness

and the fuel for continued prosperity -- finds itself "rewarded" for initiative and hard work with the same high marginal rates.

There may be justification for some of the rate increases over the many years. Perhaps Americans were willing to fund some greater degree of government. But, I believe we have heard a people say "enough".

Over the years our nation -- from its earliest days -- has attempted to equate revenues in with expenditures out. In more years than I can bear to repeat the equation has not balanced. Indeed, in my own tenure at Treasury, it has only gotten worse.

Why has this condition arisen? Why do we have such big deficits? If you ask taxpayers, I don't believe they will tell you it's because they haven't been taxed enough. Rather, they'll say that we're spending too much.

Revenues collected by the Federal Government have grown enormously. But spending has increased even more -- much more. In 1970, revenues were about 20 percent of GNP, and spending was just slightly over 20 percent. Almost in balance. Little problem. But, since 1970, federal outlays as a percentage of GNP have been rising at an annual rate of 1.7 percent. Since 1979, that growth rate has been a startling 4.0 percent. And because of this unchecked growth, we had budget outlays in 1983 equalling almost 25 percent of GNP while receipts were at 18.6 percent. The result: massive deficits. Big problem.

As I said, I think the people have said "enough." Witness the array of state propositions and referendums calling for tax limitation. Witness the legislators at all levels of government who aren't returned to office -- and in some recent cases have actually been recalled -- because they supported higher taxes. And witness the election of Ronald Reagan, who campaigned on a pledge to lower taxes.

The President's Economic Recovery Tax Act of 1981 was a dramatic and sorely needed step in the right direction. With the implementation of the third rollback in 1983, the marginal tax rate was reduced by about 25 percent and the American wage earner's burden was eased. We also saw a reduction in estate and gift taxes, an amelioration of the marriage tax penalty, and a very much reduced tax for business new plant and equipment.

I might inject at this point that those who blame our recession on the tax cuts are playing a little game called, "make a blatant assertion and hope nobody checks."

The tax cut went into effect on Oct. 1, 1981. The recession officially started July 1, three months earlier! The tax cut didn't cause the recession. Indeed, just the opposite, it helped pull us out of the recession.

It caused the recovery to be stronger than most forecasts, and helped to get business started on investing to improve productivity and produce more jobs. In other words, the tax cut provided incentives for people to work more and work harder; for business to employ more and produce more; and for our country to find its way back to prosperity without inflation.

What, then, caused the deficits that haunt us? Revenues were reduced by the recession, just as is the case in any recession. But that's not the reason for the deficits. In my judgment, one thing, and one thing only caused the imbalance -- overspending. We are asking for more government than we care to pay for. So we have to do one of three things -- spend less, borrow more, or tax more. Taxing more, according to a December Gallup poll, is by far the more unpopular move we could make in a choice between taxing more, or spending less.

The remedy for high deficits in my judgment is spending less. Consider what we have done in this country over the past century. From a nation that provided basically only the necessary services for its people -- the best government being the least government -- we have gradually added more and more services, more and more laws, more and more rules, and more and more regulations.

We have entered into the schools, the home and the family at the Federal level in ways our ancestors could never have imagined, let alone tolerated. All of it has been done in the name of reform, or humanity, or protection of the individual.

I'm not saying we can, or should, end most of our current Federal programs. But I am saying that their rate of growth must be brought more in line with the increase in revenues. If we can get on that path and stay on it for a few years, our deficits will shrink tremendously.

Now, returning to taxation. Just as important as the tax cuts, indexing of tax rates begins in less than 12 months -- January 1, 1985. Never again will the taxpayer see income gains eroded by the "hidden tax" of inflation and bracket creep.

That's progress! But we can't rest. We must continue to move away from the policies that impede working, saving, and investing. Such policies are terribly unfair to individuals, and to the entire nation. They rob the economy of productivity, expansion, and the ability to create more jobs.

Households and businesses should be allowed to make the best use of the resources at their disposal with a minimum of intrusion by tax considerations. If the goal is an efficient economy then this is the best tax strategy -- it causes rising productivity, growth, and a better standard of living for all Americans.

Alongside those issues of high rates, and undesirable effects on the economy, the problem of tax complexity may not seem all that important. But it is.

Complexity causes undue time, expense and frustration for taxpayers. And that, in turn, poses some degree of threat to our system of voluntary compliance.

In addition, complexity may strengthen the perception of some taxpayers that the system is unfair -- that too many special interests are being served over the general interest. This, again, can diminish the inclination to comply voluntarily.

It has been estimated that a person entering the field of tax counseling would need 33 feet of shelf space just to hold the tax code and related material. Already, millions of taxpayers find the task of filing too difficult and must depend on professional help.

I think this situation is going beyond being ridiculous to becoming disgraceful. And there is no reason to believe that under our present system, paying income tax won't become an even more complex task.

Now, if fairness, efficiency, and simplicity is the answer, the question is: How do we arrive at such a system? There are many ways to raise revenue for government and lately a number of

possibilities have been studied. You've heard of a flat tax, a graduated flat tax, a consumption tax, and several others. You may find merit in some, or all, of these methods.

Briefly, and in very general terms, a flat tax provides for a single rate of taxation, regardless of the income level. A graduated flat tax proposes that some element of progressiveness be retained in the tax rates. In both rcases, theoretically, prohibitive marginal tax rates would be cut back. There also would be fewer deductions and narrow exceptions, or possibly no deductions and narrow exceptions.

A consumption tax would place a levy on the amount of income consumed, rather than on the amount earned. Such a tax would reverse the bias against saving that we find in the current system and would allow for considerable simplification. However, it could also be regarded as inequitable by those who believe that accumulation of wealth itself is a basis for taxation, even if the wealth is not spent.

At Treasury, we are continuing to study these, and all the proposals for tax reform, in an effort to contribute to a much needed debate.

The time to act may be soon. We no longer control our tax system. It controls us.

Under Ronald Reagan great strides have been made. We have moved in the proper direction. But this Administration seeks even more reform and we need now to consider the possibility of a major overhaul.

If our tax system is to be revamped, special attention must be given to consistency. There needs to be an objective, and a framework to promote that objective.

It will not be an easy task and it will call for making some tough, unpopular decisions.

And I do realize what I'm saying here. The most difficult issue any politician, state or Federal, ever has to face -- taxation -- needs to be faced in the political arena -- yet, without injecting politics! Well, I did say it wouldn't be easy.

Don't underestimate the importance of the tax reform issue to each of you and to the prosperous economy that every American, and Virginian, has a right to expect and to enjoy. There is much at stake, and there's so much more to be done.

And I think it will be done. Certainly it won't be easy to change an institution so imbedded in our lives. It will require the kind of selfless statesmanship that was so abundant in this very room during the earliest days of our Republic. It will require that every politician, and every taxpayer, be an American first and foremost, above other concerns. It will require courage.

In a speech more than 20 years ago, John F. Kennedy, commenting on the judgment of history said: "... whether ... we fulfill our responsibilities to the state, our success or failure ... will be measured by the answers to four questions: First, were we truly men of courage? Second, were we truly men of judgement? Third, were we truly men of integrity? [And] Finally, were we truly men of dedication?

We will need all these qualities to meet our challenge. But, we must first begin with that courage.

In the words of Teddy Roosevelt: "Far better it is to dare mighty things, to win glorious triumphs, even though checkered by failure, than to take rank with those poor spirits who neither enjoy much nor suffer much, because they live in the gray twilight that knows not victory nor defeat."

We have that courage. We demonstrated it more than 200 years ago. And time and again since our nation's birth Americans have stood together. Today is again a time for Americans to "dare mighty things."

Thank you.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE January 23, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,402 million of 13-week bills and for $ 6,411 million of 26-week bills, both to be issued on January 26, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 26, 1984			:	26-week bills maturing July 26, 1984		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	8.89%	9.25%	97.753	:	8.99%	9.58%	95.455
High	8.93%	9.29%	97.743	:	9.02%	9.61%	95.440
Average	8.92%	9.28%	97.745	:	9.01%	9.60%	95.445

Tenders at the high discount rate for the 13-week bills were allotted 20%.
Tenders at the high discount rate for the 26-week bills were allotted 9%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 242,055	$ 55,055	:	$ 159,445	$ 47,745
New York	12,597,380	4,568,500	:	14,021,100	4,990,360
Philadelphia	35,185	35,185	:	21,275	21,275
Cleveland	86,230	83,030	:	55,010	45,910
Richmond	51,565	33,265	:	63,985	48,515
Atlanta	56,020	54,020	:	164,625	63,715
Chicago	1,416,285	128,685	:	1,301,590	290,840
St. Louis	107,530	67,530	:	113,520	74,520
Minneapolis	25,165	13,165	:	31,845	24,385
Kansas City	44,530	43,125	:	88,330	75,615
Dallas	29,990	29,990	:	26,580	25,580
San Francisco	1,653,370	1,008,770	:	1,086,230	364,160
Treasury	281,230	281,230	:	338,665	338,665
TOTALS	$16,626,535	$6,401,550	:	$17,472,200	$6,411,285
Type					
Competitive	$14,564,630	$4,339,645	:	$14,670,235	$3,609,320
Noncompetitive	1,076,170	1,076,170	:	1,271,765	1,271,765
Subtotal, Public	$15,640,800	$5,415,815	:	$15,942,000	$4,881,085
Federal Reserve	943,335	943,335	:	850,000	850,000
Foreign Official Institutions	42,400	42,400	:	680,200	680,200
TOTALS	$16,626,535	$6,401,550	:	$17,472,200	$6,411,285

1/ Equivalent coupon-issue yield.

R-2498

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R-2498

TREASURY NEWS

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

REMARKS BY THE HONORABLE BERYL W. SPRINKEL
UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE
NATIONAL ASSOCIATION OF WHEAT GROWERS
Denver, Colorado
January 25, 1984

The Exchange Rate System and Agricultural Trade

It is a great pleasure to be here today, addressing the National Association of Wheat Growers. My own roots are in agriculture: I started out in life on a farm in Missouri. My folks' place wasn't big or fancy -- grain, sometimes a few chickens, a few hogs. Even half a lifetime after I left that place, there are parts of it I can never get away from. Most of my career was spent in Chicago, then the hog capital of the world -- and now during football season even Washington D.C. gets taken over by "hogs" and their admirers.

There is another, more serious, way in which I have never left my roots behind. Growing up on that Missouri farm taught me things I never could have learned as well anywhere else: self-reliance, the importance of hard work, and the principle of risk and reward. You just don't find many lazy farmers -- and anybody who's ever mortgaged everything he owns to buy seeds, herbicides, pesticides and fertilizer to put into the soil in hopes of a good crop knows that, in the real world, you have to take risks in order to have a chance at financial rewards.

Farming, like many other sectors of American business, is sensitive to changes in government regulation and other policies. For this reason the government has a responsibility to be a reasonable and predictable economic partner. The Reagan Administration is trying to live up to that responsibility. We recognize the essential fact that anything the government gives away to one citizen had to be taken from others. That's no way to solve problems -- it merely spreads them around.

Human ingenuity and enterprise, however, can solve problems. These are the hallmarks of the private sector, the source of growth and progress in our economy. It is for that reason that this Administration has worked so hard to get government off the backs of the American people, by breaking the cycle of tax and spend and removing burdensome and unnecessary regulations. There will always be human problems which we would like to be able to address, but our experience with decades of an expanding government role in the American economy has proven that some solutions only breed new and larger problems.

R-2499

This morning I would like to speak to you about an area of international economic policy in which this Administration is often accused of doing too little -- exchange rate policy. I will outline the basic features of the present exchange rate system, some of the current issues and complaints about exchange rate developments, how the U.S. government responds to them, and and how these and other factors affect the outlook for U.S. U.S. agricultural exports.

The Exchange Rate System

From the end of the Second World War to 1973, the United States participated in a system of fixed exchange rates, the Bretton Woods System. Under that system, most member countries of the International Monetary Fund agreed to keep the exchange rates of their currencies within a narrow range around agreed fixed parities in terms of the dollar; the United States government in turn agreed to stand ready to convert dollars into gold at a fixed price in transactions with other governments.

Because we no longer operate under those rules, and because world economic performance has been so poor since 1973, some critics contend that we no longer have a functioning exchange rate system at all. This argument is grossly misleading: what we do have is a system which has changed to cope with the economic environment. There are a number of reasons why there we no longer have fixed exchange rates -- but the most important one is that they are no longer either appropriate or possible.

The Bretton Woods system lasted as long as it did because the United States had a dominant position in the world economy in the immediate postwar era, and because economic performance in the United States was among the world's best. Over time, however, other countries such as Germany and Japan recovered from the war and began to catch up with us, and inflation and productivity performance in the United States began to weaken relative to these new competitors. In a world with only one large economy and one major currency, fixed exchange rates were comparatively easy to maintain; in a world with many large economies and many major currencies, fixed exchange rates proved impossible in the face of widely diverging economic performance. Indeed, had declining confidence in the U.S. dollar not forced an end to the Bretton Woods system in early 1973, the OPEC oil price shock a few months later surely would have.

Since then, global economic conditions have been too turbulent and economic trends in the major countries too divergent for fixed rates to be feasible -- and in fact flexible rates have provided a way for international trade and financial relations to run smoothly despite these underlying problems. Private foreign exchange markets and international lending have become the primary determinants of exchange rates and international resource allocation. In recognition of this, the International Monetary Fund's ground rules for its members'

exchange rate policies were altered in 1976, to make flexible exchange rates a part of the system and to prescribe ways in which the system could be made to function smoothly.

Most importantly, the revised IMF Articles of Agreement recognized that exchange rate stability was impossible without sound economic policies in the major trading nations. IMF members therefore agreed to pursue policies for growth and price stability, and also to avoid manipulating their exchange rates to gain unfair competitive advantage over one another. These ground rules were designed to increase exchange rate stability by eliminating weak and inflationary economic policies and bringing performance in the major trading nations closer together, with occasional help from official intervention to counter disorderly conditions in foreign exchange markets.

Current Exchange Rate Issues

In the first decade of the flexible exchange rate system, participating nations have clearly failed to live up to their commitments. Economic policies in the major industrial countries have been erratic; inflation performance, while generally unsatisfactory, has also varied widely among them; and these differences in policies and performance have driven wide swings in exchange rates.

The U.S. dollar is still the world's most important currency: the vast majority of international reserve holdings are in dollars, as are most international merchandise and capital transactions. As a result, when other countries are concerned over exchange rate movements the United States government is usually caught up in international controversy. Under the Carter Administration, inflationary U.S. economic policies sent the dollar into a tailspin on foreign exchange markets, and it was widely feared that normal international commerce would be disrupted by a loss of confidence in the basic world currency. For this reason, the United States responded with a series of measures, ultimately adopting policy changes which stopped the dollar's decline.

However, since then we have started to hear exactly the opposite complaint. The dollar has appreciated on foreign exchange markets almost continuously since President Reagan's election. Foreign governments, and some U.S. businessmen, have argued that the dollar is "too strong" -- that it is overvalued in relation to other major currencies, that high U.S. interest rates are the cause of the problem, and that the U.S. government should act to bring the dollar down. Ways that have been suggested for doing so include forcing down U.S. interest rates through looser monetary policy and cuts in the budget deficit, intervention in foreign exchange markets, and, if all else fails, government controls on foreign exchange and international capital transactions. I would like to give you a brief picture of our response to these criticisms and suggestions.

First, we are sympathetic to the view that the value of the dollar is high. There is no question that dollar appreciation has made imported goods highly competitive in our market, and made it more difficult for our exporters to compete abroad. But I cannot agree with that extra leap by which one concludes that the dollar is "too high." The dollar's foreign exchange value is what it is: exchange rates are determined by market forces, and if the market's assessment is that the U.S. economy is stronger than others and U.S. dollar assets more desirable, there is little we can do -- short of weakening our economy -- to convince it otherwise. While I can agree with the general proposition that relative inflation performance is one of the main determinants of exchange rate behavior, expectations also play a major role, as do a variety of other factors. Thus, I do not accept the calculations and arguments which are generally used to establish that a particular exchange rate is "right" or "wrong."

The charge that the dollar is strong because of high U.S. interest rates simply doesn't square with the facts. The dollar's current upturn was initiated by a shift from inflationary U.S. policies to President Reagan's anti-inflationary ones, and it has been sustained since then by a wide variety of other factors. These have included: the dramatic improvement in U.S. inflation performance; continued high inflation in some major foreign countries; doubts about the political resolve of other countries to resist pressures to inflate; the impact of the President's Economic Recovery Program on the prospects for American business and the American economy; deep-seated pessimism in Europe about the longer-term future; political upheaval in areas such as Afghanistan, Poland, and the Middle East; and a general perception that the U.S. economy and currency are uniquely safe places to keep money in a turbulent world.

At times, the dollar may have been given a short-run impetus by foreign capital attracted by increases in U.S. interest rates or by widening differentials between our interest rates and those in other major countries. But on balance over the three-plus years in which the dollar has been appreciating, U.S. interest rates have <u>fallen</u> -- both in nominal and real terms -- as have the differentials between our interest rates and foreign ones. In fact, our short-term interest rates are now only about half what they were just before this Administration took office, as a direct result of the President's economic policies. Monetary discipline, restraint on government spending, and reduced regulation and taxation of the private sector have cut inflation to levels undreamed of a few years ago and reinvigorated the economy. Much remains to be done: for example, we will be working to reduce the budget deficit by attacking the excessive federal spending it represents. By maintaining the discipline of monetary policy, and improving its stability, we should be able to bring down inflation, inflation expectations, and interest rates still further. But I think the President deserves credit for what he has already accomplished.

The suggestion that the U.S. government use exchange and capital controls to bring down the dollar ignores two basic lessons of history. The first is that these controls, like other government interference with the market mechanism, reduce the efficiency of our economy and harm our longer-term growth prospects. That is why this Administration has pressed consistently for less government regulation, not more. Second, the U.S. experience with similar controls in the 1960's suggests that they don't do the job they are intended to do in any event, because financial markets adapt and their effects are offset elsewhere in the financial system.

There is a similarly simple reason why we don't agree with the suggestion for intervention to alter the dollar's foreign exchange value -- it doesn't work. At times during the last decade, governments which were dissatisfied with the exchange rate impacts of their domestic policies have attempted to manage exchange markets through official intervention -- large-scale government purchases and sales of foreign currency designed to change the level of exchange rates. Unwilling to seek exchange rate stability through sound policies, they tried to impose their preferences and judgments on the exchange market. But the record of these attempts has been spectacularly bad: intervention has been powerless to alter the market's assessment of underlying policies and performance, and thus could have no lasting impact on exchange rates.

This should not have been surprising: foreign exchange markets now operate around the clock, with virtually instantaneous worldwide transmission of all relevant information and a turnover estimated last year at over $33 billion per day in the New York market alone. In such a large and efficient market, it is difficult for any participant to gain a significant advantage over others, or for any single transaction to have a major impact. Every foreign exchange trader can read the same wire service reports and call his friends to gossip. How could you outguess a market like that? Most of us would admit nobody can do so consistently -- and certainly the evidence is that governments can't.

That conclusion was borne out in the United States by the attempts of the Carter Administration to halt the dollar's depreciation in 1977-1979. The dollar was declining persistently against a wide range of foreign currencies, in response to increasingly inflationary U.S. policies and the failure of that Administration to remove energy price controls which had led to a dangerous dependence on imported oil. But rather than addressing these basic U.S policy problems, the government tried to convince the market that dollar depreciation had "gone too far," through public statements and increasingly large intervention operations. Toward the end of 1978, a combination of U.S. and Japanese policy measures stopped the dollar's fall against the yen. But despite massive intervention by the U.S. and other countries, the dollar's decline against European currencies was not halted until the United States took forceful anti-inflation steps, including

a major change in monetary policy, late the next year. Over the whole episode, governments devoted tens of billions of dollars to intervention in fruitless attempts to prop up a dollar weakened by unsound U.S. policies. And even after belated U.S. policy reforms turned the dollar around, the U.S. government continued to operate in foreign exchange markets to smooth exchange rate changes and to acquire foreign currency for potential use in defending the dollar in the future.

At the beginning of this Administration, we took stock of that intervention policy, concluded it was not appropriate, and instituted the current U.S. policy of minimal interference with foreign exchange markets. We announced our intention was henceforth to intervene only if necessary to counter serious disorder in exchange markets. Some of our allies questioned this decision to stop intervening at a time the dollar was strengthening against their currencies, so to get the facts straight we initiated a thorough international study of the effectiveness of intervention. In parallel with this study, President Reagan also obtained agreement from the Heads of State of the other major industrial countries to begin a new process of "multilateral surveillance" with the IMF, a process designed to help stabilize exchange markets by getting all the major countries to adopt more similar, non-inflationary policies.

In both cases we made our point, and helped to redirect discussions of exchange rates back to underlying policies. At the conclusion of the intervention study, the governments involved agreed that intervention could only have a limited and transient impact, and that attempts to use it to resist the impacts of underlying policies were pointless or even counter-productive. For this reason, they agreed to redouble their efforts to get more uniformly sound policies in place. Over the past two years, most of these countries have in fact taken important steps in that direction.

Although exchange rates remain a topic of international concern and discussion, I believe there has been considerable progress in getting our European and Japanese partners to adopt better economic policies. Official attention and energies are focused where they belong: on putting all the major economies back on a sustainable, non-inflationary growth path. If we can do this, we will have taken care of the basic cause of exchange rate problems.

U.S. Agriculture in the World Economy

Export markets are highly important to the health of U.S. agriculture, and agricultural exports are a major factor in our overall export picture, amounting to about $35 billion or 20 percent of total exports in Fiscal 1983. Exports account for 40 percent of our overall farm output, and for your commodity, wheat, exports have been between 60 and 70 percent of production for several years.

Agriculture's export performance during the 1970's was amazing: the value of export sales rose nearly 20 percent a year, with crop exports growing slightly faster than livestock products. This growth was part of a general pattern of increased world demand for agricultural commodities, but the United States, by virtue of its size and efficiency as a producer, maintained or even increased its market shares for these products.

Unfortunately, the past few years have been difficult ones for U.S. agriculture. World trade in commodities has slumped badly, largely because of the worldwide recession. Farm income dropped 30 percent in real terms between 1981 and 1982 and only recovered slightly in 1983. U.S. agricultural exports fell from $44 billion in fiscal 1981 to $35 billion last year, with lower wheat and feed grain sales accounting for nearly two-thirds of the decrease. The decline was most severe in our exports to countries facing international debt problems and hard currency shortages: sales to Latin America were off about $2 billion and those to Eastern Europe down $1 billion. Largely as a result of debt problems, imports by developing countries declined 15 percent between 1981 and 1983, in contrast to the 13 percent annual growth from the mid-seventies to 1981. Weaker economic activity in Europe and Japan also caused our export sales to those areas to decline.

Lower foreign demand for agricultural products at a time of record U.S. crops caused our swelling inventories to overhang the market, and led to sharp increases in agricultural support costs for the U.S. government. The Administration responded with the PIK program, designed to cut back production and reduce inventories. With a little help from the weather, U.S. production and inventories did decline last year. Meanwhile, supplies in the rest of the world increased.

Much has been written about the negative effect of a strong dollar on commodity prices and agricultural export sales. However, is not clear to what extent commodity prices and sales have actually been affected by changing exchange rates. In an open economy, dollar appreciation causes the world price, which is quoted in dollars, to rise in local currency terms -- and we would expect this to reduce demand for imported agricultural products. But many markets are not very open. In the EC our exports face discrimination against non-EC producers, and a variable-levy system which insulates consumers from changing world market conditions. In many developing countries, as well as in Eastern Europe, imports are determined mainly by central authorities on the basis of political pressures and the availability of financing. Commodities with higher elasticities of import demand, such as oilseeds, probably have been affected most by the increased value of the dollar. But it appears that far more important impacts on agricultural prices can be traced to the basic supply/demand situation and world economic conditions.

Despite all of the problems American agriculture has faced recently, I think its future in the world economy looks bright. In particular, our major export markets are turning up with the end of global recession and successful management of international debt problems.

More broadly, we see potential for a strong future for the entire Western world. We are hopeful that the major industrial countries will follow through on their commmitments to pursue sound, noninflationary policies and to eliminate the differences among them which have so destabilized exchange markets. We hope that all the nations of the world recognize the dangers of protectionism and retaliation, and so can cooperate to avoid a trade war. We are convinced that, acting with discipline and restraint, and responding to the lessons learned painfully from a decade of poor policies and poor performance, this time the global economic expansion will be sustainable.

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