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TREASURY NEWS

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STATEMENT OF
DENNIS E. ROSS
ACTING DEPUTY TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON LABOR-MANAGEMENT RELATIONS
OF THE HOUSE COMMITTEE ON EDUCATION AND LABOR

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the Treasury Department's current views on the social role and appropriate tax treatment of funded welfare benefit plans maintained by private employers for their active and retired employees. In the context of that discussion, I wish also to report on the present status of the study, mandated by Congress in the Deficit Reduction Act of 1984 ("DRA"), of the various tax and benefit issues relating to these welfare plans.

I would like to begin my testimony with a general description of the principles of taxation applicable to funded welfare benefit plans; these principles were changed in significant respects by the DRA. With that as background, I wish to discuss in general terms some of the tax and benefit issues that must still be faced with regard to welfare benefit plans. I should note at the outset that our study of these issues, as mandated by Congress, has really only begun; we have just started to identify and outline the relevant empirical and policy questions. Even at this early stage, however, we are able to report that the substantive issues are complex, and that reliable data about funded welfare benefit plans must be developed before these issues can be dealt with in a responsible and comprehensive manner. Thus, a study that is fully responsive to the

Congressional mandate will require substantial efforts not merely by the Treasury Department, but also the Departments of Labor and of Health and Human Services and other interested Federal agencies, as well as Congress and the private sector.

Funded Welfare Benefit Plans

Background

The tax law generally requires an employee to include in income all compensation received during the year for services performed for his or her employer, including wages, salaries and property or other in-kind benefits. Compensation that is paid in the form of certain employee benefits, however, is excepted from this general rule. For example, a variety of benefits may be excluded from employees' gross income if they are provided under qualifying employer-sponsored plans, including: (i) employer contributions on behalf of an employee to a qualified profit-sharing or pension plan; (ii) employer-provided coverage under a group-term life insurance plan providing insurance up to $50,000, a group legal services plan, an accident (i.e., disability) or health plan, or a dependent care assistance program; and (iii) benefits received under an employer-provided group-term life insurance plan, group legal services plan, health plan, and dependent care assistance program.

On the employer's side, a deduction is permitted for ordinary and necessary business expenses paid or incurred during the taxable year, including a reasonable allowance for wages, salaries and other compensation for personal services. "Other compensation" generally includes ordinary and necessary amounts paid or accrued with respect to a sickness, accident, hospitalization, medical expense, or similar welfare benefit plan. Thus, as a general matter, the year in which an employer is permitted to deduct compensation paid to its employees, either in the form of cash or welfare benefits, corresponds to the year in which the employees include (or, but for an exclusion, would include) the compensation in income. Moreover, if an employer prefunds its obligations to pay future employee compensation, income earned on the amounts set aside for that purpose is taxable to the employer.

In certain circumstances, the tax law has permitted an employer far more favorable treatment for amounts used to prefund future compensation obligations. In such cases, the employer has been allowed a current deduction for contributions to a fund or reserve for future compensation, and the fund or reserve has been permitted to grow on a tax-exempt basis.

With respect to compensation paid in cash, this favorable treatment generally has been available only with respect to profit-sharing and pension plans that comply with the applicable qualification rules. For example, in order to gain the favorable tax treatment, a pension plan must satisfy nondiscrimination rules and various minimum standards relating to participation, vesting, benefit accrual, and funding. In addition, a qualified plan must not violate annual limits on the contributions and benefits for any individual.

With respect to compensation provided in the form of welfare benefits, the favorable tax treatment described above--both advance deductions and tax-free accumulation--had been available, prior to the DRA, with respect to welfare benefit funds, including voluntary employees' beneficiary associations ("VEBAs") and certain funds maintained by insurance companies for the benefit of employers (e.g., retired lives reserves for life and medical insurance, and certain experience-rated insurance arrangements for active employees, retired employees, or both). Although such welfare benefit funds qualifed for the favorable tax treatment available to qualified pension and profit-sharing plans, they were not required to satisfy the minimum standards or the annual limits on contributions and benefits that are applicable to such plans. In addition, although VEBAs were, under regulations, subject to nondiscrimination rules, no similar rules limited the favorable tax treatment of funds held by insurance companies for the benefit of employers.

The Quantification of Tax Benefits: An Example

The combination of the current deduction for deferred welfare benefits and the tax-exempt growth of funds set aside for such benefits provides employers with substantial tax benefits. For example, an employer subject to a 46 percent marginal income tax rate generally bears about 54 percent of the cost of providing an employee with a welfare benefit (or other compensation) and the Federal government (or taxpayers generally), through the tax system, bears about 46 percent of the cost of the benefit. To the extent that the employer is able to prefund, on a deductible basis, a deferred benefit through a tax-exempt entity, such as a VEBA, a portion of the cost of the benefit will be purchased with tax-exempt income earned by the entity. In such a case, the Federal government will pick up a greater share of the total cost of the benefit. If the tax-favored prefunding occurs many years in advance of when the benefit is provided to the employees, the government's share of the cost will far exceed the employer's share due to the greater accumulation of tax-exempt income. It is important to note that this shifting of costs to the government occurs even though the funding of the future benefit is actuarially sound.

One way of illustrating the magnitude of this tax benefit is by comparing the after-tax amounts generated if the same amounts are set aside, over a period of years, on a deductible and tax-exempt basis, on the one hand, and on a non-deductible and taxable basis, on the other. For example, assume that a corporation is willing to devote $2,000 at the beginning of each year for 10 years toward purchasing an employee welfare benefit at the end of the 10th year. Assume further that the corporation is in the 46 percent tax bracket for each of these years, and that the annual interest rate is 10 percent.

If the corporation uses a VEBA to fund the benefit, it will be allowed to deduct the $2,000 in each year of contribution to the VEBA. If, however, the corporation merely uses a taxable bank account to fund the benefit, it will be able to set aside in each year only the after-tax value of $2,000, which is $1,080. After ten years of accumulation, the VEBA fund will be $35,062.33, whereas the balance in the bank account will be only $14,587.83. The bank account balance, however, will support a benefit of only $27,014.50, which would be financed by the tax savings attributable to the deduction for this benefit (.46 x $27,014.50) and the $14,587.83 account balance. Thus, in this example, funding the benefit through the VEBA permits the corporation to provide a 30 percent greater benefit than funding through the taxable bank account.

Viewing this example from a slightly different perspective, a corporation using a VEBA would be able to provide, in the 10th year, a welfare benefit costing $35,062.33 by making contributions of $2,000 to the VEBA for each of ten years, for a total contribution cost to the corporation of $20,000. However, a corporation that was providing the same welfare benefit through a taxable bank account would be required to make annual contributions of $2,595.81 for the ten years, for a total contribution cost of $25,985.10. As the period of tax-favored deferral extends beyond ten years, a greater portion of the total cost of the benefit provided is shifted to the Federal government.

The Development of VEBAs

The historical development of the VEBA rules indicates that the effectively unlimited tax exemption for VEBAs did not come about in a considered and deliberate fashion. Indeed, before the DRA, Congress seems not to have appreciated the potentially substantial tax benefits that an employer could derive through a VEBA. Instead, Congress generally viewed VEBAs simply as vehicles through which employees could join together to provide certain welfare benefits for themselves without adverse tax consequences.

Congress originally enacted a statutory tax exemption for VEBAs in 1928. The exemption was available only for VEBAs with respect to which at least 85 percent of the income was collected from members to pay benefits or administrative expenses. Later, in response to the Internal Revenue Service's argument that employer contributions, if in excess of 15 percent of a VEBA's income, destroyed the VEBA's tax-exempt status, Congress provided that employer contributions would be treated as member contributions for purposes of the 85 percent test.

Even after the change in treatment of employer contributions, the 85 percent test, by effectively limiting the investment income in a VEBA to 15 percent of the VEBA's income, prevented employer's from using VEBAs to accumulate substantial tax-favored reserves. The Tax Reform Act of 1969, however, in a move apparently intended to restrict the tax advantages of VEBAs, subjected VEBAs to the unrelated business income tax and eliminated the 85 percent test; Congress appeared to believe that applying the unrelated business income tax rendered the 85 percent test unnecessary. Under the applicable unrelated business income tax provisions, however, VEBA income was not subject to tax if it was "set aside" to provide permissible benefits. Thus, there were no longer any limits on the amounts that an employer could set aside in a VEBA to pay a permissible benefit or on the tax-free earnings that could accumulate on the VEBA reserves.

<u>The Deficit Reduction Act: Deductions and Tax-Free Growth</u>

The DRA adopted rules that, with limited exceptions for post-retirement life and health benefits, were designed to subject an employer that uses a welfare benefit fund, such as a VEBA, to the tax rules applicable to deferred compensation outside the area of qualified pension and profit-sharing plans: no current deduction for future benefits and no tax-free accumulation of income. In setting this objective, Congress sought to limit the extent to which an employer could use a welfare benefit fund to shift to the Federal government a greater portion of the cost of welfare benefits.

In general, the rules adopted in the DRA were designed to make equivalent the tax treatment of an employer using a welfare benefit fund to provide current benefits to active employees, and the employer providing the same benefits through a policy with an insurance company. An employer that provides health coverage through a policy with an insurance company is permitted a deduction only with respect to the cost of the current year's coverage; the cost of a subsequent year's health coverage is not deductible until the subsequent year, even if the premium for

that coverage is paid in an earlier year. Correspondingly, the DRA generally limits an employer's annual deduction for contributions to a welfare benefit fund, including a VEBA, to the sum of the benefits provided during the year plus a reasonable addition to an actuarially justified reserve to cover benefit claims incurred but unpaid as of the end of the year. The rules thus effectively disallow deductions for contributions to prefund benefits that relate to future years. In addition, if the reserves in a fund as of the end of a year exceed the permitted reserve level, the income of the fund will be subject to the unrelated business income tax. Put another way, the new rules permit an employer a deduction each year only for the amount that an insurance company would have charged as a premium (net of profit) for the benefits for that year if the insurance company had known all of the facts that were known to the welfare benefit fund. In this regard, the rules aim at eliminating the tax law as an important factor in an employer's decision about whether to self-insure welfare benefits through a welfare benefit fund or to insure such benefits under a policy with an insurance company.

The rules adopted in the DRA do provide limited tax-favored treatment with respect to reserves accumulated to provide post-retirement life insurance and health benefits. Thus, with one exception, the treatment available with respect to funds accumulated in qualified pension and profit-sharing plans--advance deductions and tax-free growth--is extended, subject to certain restrictions, to funds accumulated in welfare benefit funds for these post-retirement benefits.

In the case of post-retirement life insurance, the rules provide that an employer may deduct contributions to accumulate, no more rapidly than over its employees' years of service, an actuarially justified reserve to provide retired employees with group-term life insurance up to $50,000; this reserve is permitted to grow on a tax-exempt basis. Similarly, the rules permit an employer to deduct, generally under the same terms, contributions to a reserve to provide retired employees with health benefits. The calculation of the actuarial reserve for post-retirement health benefits is limited, however, because the rules prohibit consideration of projected increases in the current cost and current level of such benefits provided by the employer. More importantly, unlike the retired lives reserve for life insurance, the funds set aside for post-retirement health benefits are not permitted to grow on a tax-exempt basis, but instead are subject to the unrelated business income tax. This means that, in effect, an employer is permitted a deduction for contributions to a taxable, rather than a tax-exempt trust in order to prefund post-retirement health benefits.

The Deficit Reduction Act: Nondiscrimination

The DRA also imposed eligibility, coverage, and nondiscrimination rules on VEBAs, and made welfare benefit funds in general subject to such rules to the extent the funds are used to provide welfare benefits to retired employees. Specifically with regard to VEBAs, the Act made satisfaction of nondiscrimination rules a statutory condition of tax-exempt status. Thus, for example, if a VEBA is part of a welfare plan that discriminates in favor of the employees who are highly compensated, the VEBA is not tax-exempt.

More broadly, the new rules impose on employers an excise tax equal to 100 percent of any medical or life insurance benefit provided through a welfare benefit fund with respect to retired employees if the plan of which the fund is a part fails to satisfy the new nondiscrimination rules for VEBAs with respect to such benefit. Thus, the tax benefits previously available with respect to a fund held by an insurance company for the benefit of the employer are eliminated if the plan of which the fund is a part discriminates with respect to medical or life insurance benefits for retired employees.

Finally, the DRA contained various rules aimed at limiting the extent to which an employer may use a VEBA or similar entity for unintended purposes. For example, funds that are set aside to provide post-retirement life insurance and health benefits to a key employee of the employer must be credited to a separate account and, to the extent attributable to post-retirement health benefits, must be counted under the annual limitation on additions to a qualified defined contribution plan (section 415(c) of the Code). Also, a key employee may receive prefunded post-retirement medical benefits only out of funds credited to his or her separate account. Finally, a 100 percent excise tax is imposed on any employer that receives any portion of any welfare benefit fund.

* * *

The Treasury Department believes that the rules adopted by the DRA for welfare benefit funds were an appropriate step in rationalizing the Federal tax treatment of employer-funded welfare benefits. The rules effectively introduce greater tax neutrality with respect to issues such as whether an employer should provide its employees with compensation in the form of cash or welfare benefits and whether, in providing welfare benefits, an employer should self-insure through a welfare benefit fund, such as a VEBA, or should provide such benefits through a policy with an insurance company. In addition, the

rules effectively limit the extent to which employers are able to shift the costs of welfare benefits to the Federal government by providing such benefits through a welfare benefit fund.

Minimum Vesting, Benefit Accrual and Funding Standards

The DRA did not require that a welfare benefit fund satisfy minimum standards with respect to vesting, benefit accrual, and funding. These standards are appropriate where an employer is permitted to accumulate amounts on a tax-favored basis for future benefits, as with qualified pension and profit-sharing plans, but have little relevance to current welfare benefits based on current service and funded on a pay-as-you go basis. Thus, because the DRA generally precluded an employer from accumulating a tax-favored reserve for future preretirement benefits, and provided only very limited favorable treatment for the funding of post-retirement benefits, the DRA did not apply minimum standards to welfare benefit funds.

Instead, section 560 of the DRA directed the Treasury Department to make a study of the problems relating to the use of employee welfare benefit plans for the provision of benefits to current and retired employees, including a study of the need for participation, vesting, and funding standards. Regarding the study, the Conference Report states that Treasury should examine the possible means of providing minimum standards for employee participation, vesting, accrual, and funding under welfare benefit plans for current and retired employees (including separated employees). In addition, the Report states that the study should include a review of whether the funding of welfare benefits is adequate, inadequate, or excessive. Finally, the Report states that Treasury should make suggestions for minimum standards where appropriate.

Although we have as yet only begun to outline the study, we have decided as a threshold matter to focus on the provision of post-retirement medical benefits through funded arrangements. This focus is appropriate for a number of reasons. First, it seems reasonable for employers to treat current welfare benefits for active employees no differently than current wage or salary obligations, i.e., as compensation to be funded on a current basis. There is in any event no basis for the tax system to provide favorable treatment, either in the form of advance deductions or tax-exempt growth, to current welfare benefits that relate to service by active employees. An additional reason for a focus on post-retirement health benefits is their centrality to the general scheme of employee benefits. As the very existence of the Medicare program indicates, the provision of post-retirement health benefits on a broad and equitable basis is a substantial social policy objective.

Collection of Data

For purposes of our study, we have grouped the issues relating to the provision of post-retirement health benefits into three categories. The first group comprises entirely empirical issues. Thus far, we have had little success in assembling meaningful data either on welfare benefit funds in general or on prefunded post-retirement health benefits in particular. Among our needs in this respect is information concerning the extent to which active and retired employees (and their families) have health coverage; the extent to which health coverage is provided by the employer; the costs and levels of such coverage and whether it is provided on a self-insured basis or under a policy with an insurance company; the existing conditions on the receipt of employer-provided post-retirement health benefits (e.g., five years of service and retirement with the employer); the extent to which current and post-retirement health benefits are prefunded on a tax-favored basis; the reserves that have been accumulated in funded current and post-retirement health plans; and the actuarial soundness of the reserves for existing welfare benefit funds.

We have not as yet decided how to gather the necessary data on welfare benefit plans, but we are considering a variety of sources both in and out of the Federal government. In the meantime, we are, of course, continuing to study the policy and technical issues which are set forth in the balance of my testimony.

Retirement Policy Issues

The second category of issues identified for purposes of our study involves the basic policy question of whether the tax system should be used to create incentives for employers to provide, on an actuarially sound, prefunded basis, post-retirement health benefits. To resolve that issue we need to consider a variety of related questions. For example, what is the appropriate level of retirement benefits? What is the appropriate mix of private and public programs in providing such benefits? What is the proper mix of the forms of retirement benefits, and thus to what extent should retirement benefits be provided in-kind, such as health benefits, rather than in cash?

If the appropriate level of retirement health benefits exceeds those provided under public health programs, such as Medicare and Medicaid, it must be determined whether employers, individuals, or some combination of the two should supply the additional health benefits. If employers should directly provide retired employees with additional health benefits, we need to

address how the benefits are to be funded. Should each generation bear the cost of its own benefits, as typically occurs in a private pension plan, or should there be an intergenerational transfer of funds, as occurs under Social Security? Moreover, how should the cost of post-retirement health benefits be shared between employer and employee?

Assuming that employers should prefund the additional post-retirement health benefits over the years of active employees' service, as occurs in a private pension plan, we must again address the underlying question of whether the Federal government through the tax system should create incentives for employers to prefund such benefits. The absence of such incentives would not prevent or even necessarily discourage prefunding of post-retirement health benefits, since an employer is always free to set aside the necessary amounts in a taxable bank account. Although both the amounts and earnings set aside for such purposes would be net of tax, this is consistent with the general treatment of prefunded deferred compensation.

If a direct tax incentive for employer prefunding is desired, however, the rules adopted in the DRA for post-retirement health benefits may well be an appropriate model. Under these rules, the employer effectively receives a deduction for contributions to an actuarially justified reserve to prefund post-retirement health benefits, but such reserves grow only on a taxable, not a tax-free basis. The effect is that employers are provided with a mechanism for prefunding post-retirement benefits, but the tax benefits and cost shifting to the Federal government that are generally associated with qualified pension and profit-sharing plans are not available. This approach was also taken with respect to costs for nuclear power decommissioning and coal mine reclamation under the premature accrual rules adopted in the DRA.

Finally, one might conclude that incentives equivalent to the qualified pension plan incentives are appropriate to encourage the prefunding of post-retirement health benefits. This means not only that an employer would receive an advance deduction for contributions to fund future welfare benefits, but also that accumulations for the post-retirement health benefits would grow on a tax-free basis.

To the extent retirement policy objectives support substantial tax benefits for prefunded post-retirement health benefits, it would seem consistent with those objectives to implement minimum vesting, benefit accrual, and funding standards. These minimum standards would perform several functions. First, they would expand the group of retired persons that receive health benefits and increase for some the amount of benefits received. Under benefit accrual and vesting rules an

employee may have a vested right to some post-retirement health benefit from an employer even though the employee does not remain with the employer until retirement. Absent accrual and vesting standards, an employee will generally not receive post-retirement health benefits from an employer unless he or she retires from the employer.

Second, vesting and accrual standards would provide an employee with greater security about whether the promised future benefit would actually be provided. Such standards would generally prevent an employer from eliminating promised post-retirement health benefits and would reduce the extent to which an employer and its key employees could divert to their own benefit funds set aside for rank-and-file employees.

Third, benefit accrual and funding rules, in conjunction with appropriate actuarial methods, would regulate the rate at which the promised benefits are funded. Generally, an employer's prefunding would be linked to the rate at which employees accrue or earn future benefits. In terms of assuring employees that their accrued benefits will be adequately funded when promised, a minimum funding standard generally should require that the future benefits be funded, on an actuarial basis, at least as rapidly as employees accrue the right to such future benefits.

In spite of these generally positive aspects of applying accrual and vesting standards to prefunded post-retirement health benefits, the application of such standards could have an adverse effect on an insurance company's or an employer's willingness or ability to provide post-retirement health benefits to former employees who separated from service years before retirement. We understand that the primary reason that existing post-retirement health benefit plans limit coverage to employees who retire with the employer in question is that insurance companies generally refuse to underwrite coverage for separated employees.

Technical Issues

The third category of matters that should be addressed in the study of post-retirement health benefits involve more technical issues concerning the application of vesting, benefit accrual, and funding concepts. A health plan can be a very complex benefit, providing a diverse mix of medical goods and services. For example, a health plan may have distinct deductible and co-payment requirements for different types of medical claims, aggregate deductible limits, and no coverage at all for various types of specific medical claims (such as elective medical care and catastrophic care). In addition, health plans may also involve preferred provider organizations and health maintenance organizations (HMOs).

The complex nature of a health plan and its accompanying benefits raises a myriad of technical questions that will not be easily resolved. For example, what does an employee have if he or she has accrued or is vested in some portion of the right to receive coverage under a specific health plan? It is difficult to imagine how an employee accrues some portion of a post-retirement right to HMO coverage over each of his or her years of service. In the pension area, benefits generally are calculated in terms of dollars; accordingly, it is not difficult to think in terms of a 50 percent vested right to a dollar benefit accrued over ten years of plan participation. It is at least awkward, however, to think in terms of an employee having accrued a 50 percent vested right to a health benefit with a $500 deductible for type A medical claims and a $200 deductible for type B claims, and two co-payment requirements, with an overall employee cost limit for items not covered because of the deductibles and co-payment requirements. After such an employee has an additional year of service for vesting purposes, in what respect will the employee's vested benefit be increased? Also, what becomes of a separated employee's partially vested right to a health benefit based on several years of service?

Issues such as these raise the further question of whether it might be possible, in designing a system of standards for prefunded, post-retirement health coverage, to work with dollar amounts in lieu of health coverage. Of course, it would be simpler to define an employee's accrued benefit in terms of a specified dollar amount than to define it in terms of the variety of different characteristics that typify existing health plans: one could simply state that an employee had accrued a right to an annual health benefit costing $500 for each year after retirement. The employer then could simply fund for a projected dollar amount, rather than for the projected cost of a specific type of health coverage with a variety of particular characteristics. But while this approach would eliminate most of the technical problems in applying accrual and vesting concepts to health benefits, it also would make the post-retirement health benefit system substantially indistinguishable from the existing qualified defined benefit plan system under which employees receive specified dollar amounts.

* * *

In closing, I would like to reaffirm that we are pleased to play a role in the study of welfare benefit funds. The questions raised in this area involve fundamental issues of retirement policy, and should properly be subject to examination on a regular basis. Indeed, it may well be that the most important product of this endeavor will be a clearer definition of a

national retirement policy, relating not merely to welfare benefits, but to all forms of retirement benefits, including Social Security, Medicare, and benefits under qualified pension and profit-sharing plans. We welcome the aid and cooperation of the Labor, Commerce and other Departments, this Committee, and the private sector in this important effort.

federal financing bank NEWS
WASHINGTON, D.C. 20220
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FOR IMMEDIATE RELEASE September 26, 1984

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of July 1984.

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies totaled $143.3 billion on July 31, 1984, posting a net increase of $1.6 billion from the level on June 30, 1984. This change included increases in holdings of agency assets of $1.1 billion, holdings of agency guaranteed debt of $0.3 billion and holdings of agency direct debt issues of $0.2 billion. The FFB made 331 disbursements during the month.

Attached to this release are tables presenting FFB July loan activity, new FFB commitments to lend entered into during July and FFB holdings as of July 31, 1984.

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R-2867

FEDERAL FINANCING BANK

JULY 1984 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 #369	7/9	$ 15,000,000.00	7/19/84	10.515%	
Note #370	7/9	385,000,000.00	7/16/84	10.515%	
Note #371	7/16	375,000,000.00	7/23/84	10.475%	
Note #372	7/23	115,000,000.00	8/1/84	10.675%	
Note #373	7/23	220,000,000.00	8/6/84	10.675%	
Note #375	7/31	210,000,000.00	8/15/84	10.875%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
Note #237	7/2	5,000,000.00	8/31/84	10.425%	
Note #238	7/2	20,000,000.00	10/2/84	10.435%	
+Note #239	7/5	15,000,000.00	10/4/84	10.505%	
+Note #240	7/10	15,000,000.00	10/9/84	10.535%	
Note #241	7/13	25,000,000.00	10/11/84	10.555%	
+Note #242	7/16	15,000,000.00	10/15/84	10.485%	
+Note #243	7/16	5,000,000.00	8/15/84	10.475%	
+Note #244	7/20	25,000,000.00	10/18/84	10.655%	
OFF-BUDGET AGENCY DEBT					
UNITED STATES RAILWAY ASSOCIATION					
*Note #31	7/2	73,864,508.60	10/1/84	10.435%	
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership					
	7/1	120,000,000.00	7/1/94	13.965%	14.453% ann.
	7/2	675,000,000.00	7/1/89	13.845%	14.324% ann.
	7/2	310,000,000.00	7/1/94	13.965%	14.453% ann.
	7/2	95,000,000.00	7/1/99	13.935%	14.420% ann.
	7/2	20,000,000.00	7/1/04	13.895%	14.378% ann.
	7/5	85,000,000.00	7/1/94	13.925%	14.410% ann.
	7/5	165,000,000.00	7/1/99	13.885%	14.367% ann.
	7/15	170,000,000.00	7/1/94	13.425%	13.876% ann.
	7/15	220,000,000.00	7/1/99	13.435%	13.886% ann.
	7/25	50,000,000.00	7/1/94	13.435%	13.886% ann.
	7/29	210,000,000.00	7/1/94	13.075%	13.502% ann.
	7/29	100,000,000.00	7/1/99	13.095%	13.524% ann.
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE					
Foreign Military Sales					
Egypt 5	7/2	321,228.00	6/20/13	13.795%	
Turkey 14	7/2	5,094,287.09	11/30/12	13.888%	
Israel 15	7/2	21,379,689.20	7/10/13	13.786%	
Morocco 12	7/3	737,136.00	9/21/95	14.005%	
Niger 1	7/3	46,353.73	3/1/88	13.475%	
Philippines 9	7/3	5,865,822.00	5/15/91	13.873%	
Turkey 14	7/3	35,803,552.52	11/30/12	13.879%	
Tunisia 16	7/5	847,251.42	2/4/96	13.925%	
Zaire 1	7/5	1,523,479.44	9/22/92	13.849%	
Greece 14	7/6	1,567,551.75	4/30/11	13.895%	
Greece 15	7/6	539,225.00	6/15/12	13.895%	

+rollover
*maturity extension

FEDERAL FINANCING BANK

JULY 1984 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)					
Liberia 10	7/6	$ 69,453.85	5/15/95	13.895%	
Philippines 9	7/6	803,991.30	5/15/91	13.825%	
Israel 15	7/10	2,561,227.91	7/10/13	13.425%	
Greece 14	7/11	27,741.50	4/30/11	13.605%	
Philippines 10	7/11	1,009,113.61	7/15/92	12.235%	
Israel 15	7/12	5,219,547.39	7/10/13	13.475%	
El Salvador 6	7/13	1,656,835.00	5/15/95	13.545%	
Indonesia 9	7/13	5,007,641.13	5/10/92	13.554%	
Liberia 10	7/13	90,483.00	5/15/95	13.555%	
Turkey 14	7/13	3,315,358.21	11/30/12	13.407%	
Eygpt 5	7/16	11,358,092.29	6/20/13	13.299%	
Somalia 4	7/16	33,998.21	11/30/12	13.405%	
Egypt 5	7/18	1,993,122.82	6/20/13	13.325%	
Greece 14	7/18	4,040,985.92	4/30/11	13.475%	
Jordan 12	7/18	3,262,926.00	2/5/95	13.305%	
Morocco 11	7/20	253,184.66	9/8/95	13.375%	
Philippines 10	7/20	475,620.47	7/15/92	12.045%	
Turkey 14	7/20	874,479.41	11/30/12	13.295%	
Israel 15	7/24	10,863,314.95	7/10/13	13.401%	
Botswana 3	7/24	121,168.73	3/10/91	13.125%	
El Salvador 6	7/24	699,000.00	5/15/95	13.475%	
Greece 14	7/24	1,205,200.00	4/30/11	13.465%	
Jordan 10	7/24	22,073.42	3/10/92	12.315%	
Kenya 11	7/24	402,063.08	5/15/95	13.475%	
Korea 18	7/24	266,656.00	12/31/95	13.475%	
Turkey 13	7/24	22,301,279.18	11/30/12	13.475%	
Portugal 1	7/25	1,769,525.50	9/10/94	13.335%	
Dominican Republic 7	7/26	1,557,000.00	9/10/95	13.179%	
Indonesia 9	7/26	1,550,808.00	5/10/92	13.168%	
Turkey 14	7/26	486,015.10	11/30/12	13.138%	
Egypt 5	7/27	2,247,844.49	6/20/13	13.005%	
Philippines 10	7/27	1,110,332.54	7/15/92	11.976%	
Egypt 6	7/27	6,078,745.33	4/15/14	13.015%	
Ecuador 4	7/30	36,069.00	7/25/87	12.815%	
Egypt 5	7/30	1,201,996.00	6/20/13	13.035%	
Kenya 11	7/30	331,485.00	5/15/95	13.075%	
Niger 1	7/30	171,526.88	3/1/88	12.888%	
Turkey 13	7/31	275,587.99	3/24/12	13.205%	
DEPARTMENT OF ENERGY					
Synthetic Fuels - Non-Nuclear Act					
Great Plains Gasification Assoc. #114a	7/2	119,500.00	10/1/84	11.115%	
#114b	7/2	112,000.00	1/2/85	12.135%	
#114c	7/2	106,000.00	4/1/85	12.735%	
#114d	7/2	58,000.00	7/1/85	13.235%	
#115	7/9	4,000,000.00	10/1/84	11.235%	
#116	7/16	6,000,000.00	10/1/84	11.305%	
#117	7/31	18,000,000.00	7/1/85	12.605%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development					
Long Beach, CA	7/6	60,000.00	8/1/85	12.335%	12.715% ann.
Lincoln, NE	7/6	5,000.00	10/1/84	10.485%	
Kansas City, MO	7/6	500,000.00	6/15/85	12.165%	12.513% ann.
Somerville, MA	7/6	110,000.00	5/1/85	11.925%	12.203% ann.
Utica, NY	7/11	$ 97,000.00	5/1/85	11.915%	12.186% ann.
St. Petersburg, FL	7/11	75,000.00	12/1/85	12.695%	13.098% ann.
Peoria, IL	7/13	250,000.00	2/1/85	11.455%	11.517% ann.

JULY 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Community Development (Cont'd)					
Pittsburgh Urban Red. Auth.	7/13	$ 125,000.00	10/15/03	13.531%	13.989% ann.
San Buenaventura, CA	7/15	40,449.92	8/15/84	10.555%	
Detroit, MI	7/20	2,592,000.00	9/1/84	10.655%	
Sacramento Hsg. & Redev. Ag.	7/25	72,500.00	2/1/85	11.525%	11.550% ann.
Detroit, MI	7/27	1,575,000.00	9/1/84	10.785%	
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	7/2	11,374,459.00	10/1/92	13.812%	14.289% ann.
	7/20	5,500,000.00	10/1/92	13.256%	13.695% ann.
DEPARTMENT OF THE NAVY					
Defense Production Act					
Gila River Indian Com. #15	7/13	163,086.01	10/1/92	13.522%	13.301% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
Hoosier Energy #286	7/2	25,000,000.00	9/30/86	13.394%	13.177% qtr.
Wabash Valley Power #206	7/2	337,000.00	7/2/86	13.295%	13.081% qtr.
Kansas Electric #216	7/2	5,480,000.00	9/30/86	13.415%	13.197% qtr.
Wolverine Power #274	7/2	18,858,000.00	9/30/86	13.413%	13.195% qtr.
Brazos Electric #108	7/2	156,000.00	7/2/86	13.295%	13.081% qtr
Brazos Electric #230	7/2	6,407,000.00	7/2/86	13.295%	13.081% qtr.
Seminole Electric #141	7/2	56,647,000.00	7/2/86	13.295%	13.081% qtr.
Big Rivers Electric #91	7/2	23,000.00	9/30/86	13.415%	13.197% qtr.
Big Rivers Electric #143	7/2	1,009,000.00	9/30/86	13.415%	13.197% qtr.
Big Rivers Electric #179	7/2	19,614,000.00	9/30/86	13.415%	13.197% qtr.
Saluda River Electric #271	7/2	12,427,000.00	9/30/86	13.415%	13.197% qtr.
*Saluda River Electric #186	7/2	8,646,000.00	7/2/86	13.295%	13.081% qtr.
*Plains Electric G&T #158	7/2	3,517,000.00	7/2/86	13.295%	13.081% qtr.
*South Mississippi #3	7/2	597,000.00	9/30/86	13.387%	13.170% qtr.
*South Mississippi #90	7/2	136,000.00	7/2/86	13.295%	13.081% qtr.
*South Mississippi #171	7/2	12,846,000.00	7/2/86	13.295%	13.081% qtr.
*Oglethorpe Power #74	7/2	13,235,000.00	7/2/87	13.605%	13.381% qtr.
*Oglethorpe Power #150	7/2	5,391,000.00	7/2/87	13.605%	13.381% qtr.
*Big Rivers Electric #179	7/2	6,739,000.00	12/31/84	11.315%	11.159% qtr.
*Big Rivers Electric #91	7/2	2,524,000.00	9/30/86	13.415%	13.197% qtr.
*Wabash Valley Power #104	7/2	7,681,000.00	7/2/86	13.295%	13.081% qtr.
*Wabash Valley Power #206	7/2	347,000.00	7/2/86	13.295%	13.081% qtr.
*Hoosier Energy #107	7/2	24,830,185.68	7/2/86	13.295%	13.081% qtr.
*New Hampshire Electric #192	7/2	1,340,000.00	7/2/86	13.295%	13.081% qtr.
*Wolverine Power #182	7/2	1,723,000.00	7/2/86	13.295%	13.081% qtr.
*Wolverine Power #183	7/2	3,695,000.00	7/2/86	13.295%	13.081% qtr.
*Allegheny Electric #175	7/2	1,806,000.00	7/2/86	13.295%	13.081% qtr.
*Allegheny Electric #175	7/2	3,341,000.00	7/2/86	13.295%	13.081% qtr.
*Allegheny Electric #175	7/2	6,318,000.00	7/2/86	13.295%	13.081% qtr.
*Allegheny Electric #175	7/2	2,349,000.00	7/2/86	13.295%	13.081% qtr.
*Allegheny Electric #175	7/2	4,133,000.00	7/2/86	13.295%	13.081% qtr.
*Arkansas Electric #97	7/2	3,840,000.00	1/31/85	11.595%	11.423% qtr.
*Arkansas Electric #142	7/2	3,321,000.00	1/31/85	11.595%	11.423% qtr.
*Arkansas Electric #142	7/2	3,951,000.00	1/31/85	11.595%	11.423% qtr.
*Arkansas Electric #221	7/2	214,000.00	1/31/85	11.595%	11.423% qtr.
*North Carolina Electric #185	7/2	13,916,000.00	9/30/86	13.415%	13.197% qtr.
*North Carolina Electric #185	7/2	4,679,000.00	9/30/86	13.415%	13.197% qtr.
*Kansas Electric #216	7/2	2,067,500.00	7/2/86	13.295%	13.081% qtr.
*Soyland Power #105	7/2	5,230,000.00	6/30/87	13.605%	13.381% qtr.
*Taconic Telephone #21	7/2	2,479,750.00	7/2/86	13.295%	13.081% qtr.
*Allegheny Electric #93	7/2	1,298,000.00	9/30/86	13.402%	13.185% qtr.
Glacier Highway Electric #262	7/5	1,070,000.00	9/30/86	13.325%	13.110% qtr.
Kansas Electric #216	7/5	1,208,000.00	9/30/86	13.325%	13.110% qtr.

*maturity extension

FEDERAL FINANCING BANK

JULY 1984 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	7/6	$ 15,000,000.00	7/6/86	13.205%	12.994% qtr.
*Sunflower Electric #174	7/6	1,500,000.00	7/6/86	13.205%	12.994% qtr.
New Hampshire Electric #192	7/9	527,000.00	9/30/86	13.325%	13.110% qtr.
New Hampshire Electric #270	7/9	1,615,000.00	9/30/86	13.325%	13.110% qtr.
Deseret G&T #211	7/9	3,621,000.00	7/10/86	13.255%	13.042% qtr.
*Deseret G&T #211	7/9	22,167,000.00	7/9/86	13.255%	13.042% qtr.
*Cajun Electric #197	7/9	17,932,000.00	7/9/86	13.255%	13.042% qtr.
*Wolverine Power #101	7/10	1,854,000.00	7/10/86	13.085%	12.878% qtr.
*United Power #67	7/10	200,000.00	7/10/86	13.085%	12.878% qtr.
*United Power #86	7/10	2,150,000.00	7/10/86	13.085%	12.878% qtr.
*United Power #122	7/10	2,000,000.00	7/10/86	13.085%	12.878% qtr.
*United Power #129	7/10	9,300,000.00	7/10/86	13.085%	12.878% qtr.
Wabash Valley Power #206	7/11	61,000.00	7/11/86	13.125%	12.916% qtr.
*Western Illinois Power #99	7/11	3,895,000.00	7/11/87	13.375%	13.159% qtr.
*Wabash Valley Power #104	7/12	6,642,000.00	7/12/86	13.185%	12.975% qtr.
*Wabash Valley Power #206	7/12	302,000.00	7/12/86	13.185%	12.975% qtr.
*Oglethorpe Power 23	7/13	19,740,000.00	7/13/86	13.085%	12.878% qtr.
*Western Illinois Power #225	7/13	8,936,000.00	7/13/86	13.085%	12.878% qtr.
*Oglethorpe Power #74	7/16	22,836,000.00	7/16/86	12.975%	12.771% qtr.
*Oglethorpe Power #150	7/16	15,295,000.00	7/16/86	12.975%	12.771% qtr.
*East Kentucky Power #140	7/16	267,000.00	7/16/86	12.975%	12.771% qtr.
*East Kentucky Power #140	7/16	900,000.00	7/16/86	12.975%	12.771% qtr.
*East Kentucky Power #188	7/16	6,131,000.00	7/16/86	12.975%	12.771% qtr.
*New Hampshire Electric #192	7/16	1,091,000.00	7/16/86	12.975%	12.771% qtr.
*Seminole Electric #141	7/16	2,730,000.00	7/16/86	12.975%	12.771% qtr.
Arizona Electric #242	7/17	2,600,000.00	12/31/18	13.298%	13.084% qtr.
*South Texas Coop. #109	7/18	1,000,000.00	7/18/86	13.065%	12.858% qtr.
Oglethorpe Power #246	7/19	20,457,000.00	7/19/86	13.015%	12.810% qtr.
*South Mississippi #3	7/20	28,000.00	9/30/86	12.961%	12.758% qtr.
*South Texas Coop. #200	7/20	206,000.00	7/21/86	12.955%	12.752% qtr.
*Seminole Electric #141	7/20	14,917,000.00	7/20/86	12.955%	12.752% qtr.
*Big Rivers Electric #179	7/20	22,779,000.00	12/31/84	11.315%	11.179% qtr.
*United Power #86	7/23	898,000.00	7/23/86	12.985%	12.781% qtr.
*United Power #145	7/23	4,062,000.00	7/23/86	12.985%	12.781% qtr.
*United Power #222	7/23	814,000.00	7/23/86	12.985%	12.781% qtr.
*Wolverine Power #101	7/23	79,000.00	7/23/86	12.985%	12.781% qtr.
*Wolverine Power #183	7/23	39,000.00	7/23/86	12.985%	12.781% qtr.
*Brazos Electric #144	7/23	1,122,000.00	7/22/87	13.195%	12.984% qtr.
*Big Rivers Electric #58	7/23	226,000.00	9/30/86	13.035%	12.829% qtr.
*Big Rivers Electric #91	7/23	1,112,000.00	9/30/86	13.035%	12.829% qtr.
*Big Rivers Electric #136	7/23	776,000.00	9/30/86	13.035%	12.829% qtr.
*Big Rivers Electric #136	7/23	89,000.00	9/30/86	13.035%	12.829% qtr.
*Big Rivers Electric #143	7/23	224,000.00	9/30/86	13.035%	12.829% qtr.
*Big Rivers Electric #143	7/23	64,000.00	9/30/86	13.035%	12.829% qtr.
*Hoosier Energy #107	7/23	1,542,000.00	7/23/86	12.985%	12.781% qtr.
*Hoosier Energy #202	7/23	31,458,000.00	7/23/86	12.985%	12.781% qtr.
Central Power #275	7/24	714,000.00	9/30/87	13.203%	12.992% qtr.
Southern Illinois Power #98	7/25	400,000.00	7/25/86	12.975%	12.771% qtr.
Deseret G&T #211	7/25	3,860,000.00	7/26/86	12.985%	12.781% qtr.
*United Power #86	7/25	440,000.00	7/25/86	12.975%	12.771% qtr.
*United Power #122	7/25	65,000.00	7/25/86	12.975%	12.771% qtr.
*Soyland Power #226	7/26	5,630,000.00	7/26/86	12.765%	12.568% qtr.
Kansas Electric #216	7/26	1,499,000.00	9/30/86	12.815%	12.616% qtr.
Western Farmers Electric #133	7/26	989,000.00	7/26/86	12.765%	12.568% qtr.
Western Farmers Electric #196	7/26	4,633,000.00	7/26/86	12.765%	12.568% qtr.
Western Farmers Electric #220	7/26	54,000.00	7/26/86	12.765%	12.568% qtr.
North Carolina Electric #268	7/27	7,207,000.00	9/30/86	12.715%	12.519% qtr.
*Plains Electric #158	7/30	13,511,000.00	7/30/86	12.715%	12.519% qtr.
*South Mississippi Electric #90	7/30	2,455,000.00	9/30/86	12.747%	12.550% qtr.
North Carolina Electric #185	7/30	7,051,000.00	9/30/86	12.765%	12.568% qtr.
Colorado Ute Electric #203	7/30	7,537,000.00	9/30/86	12.765%	12.568% qtr.
French Broad Electric #245	7/30	114,000.00	7/30/86	12.715%	12.519% qtr.
Tex-La Electric #208	7/30	513,000.00	7/30/86	12.715%	12.519% qtr.

*maturity extension

FEDERAL FINANCING BANK

JULY 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
Seminole Electric #141	7/30	$ 7,745,000.00	7/30/86	12.715%	12.519% qtr.
*Gulf Telephone #50	7/30	544,000.00	7/29/87	12.885%	12.684% qtr.
*Southern Illinois Power #38	7/30	3,100,000.00	9/30/86	12.753%	12.556% qtr.
*Basin Electric #87	7/30	1,515,000.00	7/30/86	12.715%	12.519% qtr.
*Basin Electric #137	7/30	25,000,000.00	7/30/87	12.885%	12.694% qtr.
*Chugach Electric #204	7/31	1,276,000.00	6/30/88	13.035%	12.829% qtr.
*Chugach Electric #204	7/31	58,000.00	6/30/88	13.035%	12.829% qtr.
*Chugach Electric #224	7/31	752,000.00	6/30/88	13.035%	12.829% qtr.
Arkansas Electric #97	7/31	2,073,000.00	7/31/88	12.785%	12.587% qtr.
Kamo Electric #266	7/31	11,970,000.00	9/30/86	12.844%	12.644% qtr.
Corn Belt Power #138	7/31	431,000.00	7/31/86	12.785%	12.587% qtr.
Basin Electric #272	7/31	611,000.00	9/30/86	12.841%	12.641% qtr.
Brazos Electric #108	7/31	85,000.00	7/31/86	12.785%	12.587% qtr.
Brazos Electric #230	7/31	4,648,000.00	7/31/86	12.785%	12.587% qtr.
South Texas Electric #200	7/31	1,637,000.00	7/31/86	12.785%	12.587% qtr.
*Allegheny Electric #93	7/31	3,007,000.00	9/30/86	12.834%	12.634% qtr.
*Allegheny Electric #93	7/31	4,245,000.00	9/30/86	12.834%	12.634% qtr.
*Allegheny Electric #175	7/31	3,425,000.00	7/31/86	12.785%	12.587% qtr.
Allegheny Electric #175	7/31	9,948,000.00	6/30/87	12.965%	12.761% qtr.
Allegheny Electric #175	7/31	3,914,000.00	7/13/87	12.965%	12.761% qtr.
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
Northeast Missouri CDC	7/3	37,000.00	7/1/99	13.924%	
The St. Louis Local Dev. Co.	7/3	50,000.00	7/1/99	13.924%	
Ark-Tex Regional Dev. Co., Inc.	7/3	50,000.00	7/1/99	13.924%	
Deep East Texas Reg. C.D.C.	7/3	55,000.00	7/1/99	13.924%	
Texas Panhandle Reg. Dev. Corp.	7/3	63,000.00	7/1/99	13.924%	
Middlesex County CDC Co.	7/3	63,000.00	7/1/99	13.924%	
Big County Dev. Corp.	7/3	64,000.00	7/1/99	13.924%	
Warren Redev. & Planning Corp.	7/3	78,000.00	7/1/99	13.924%	
Gr. Salt Lake Bus. District	7/3	84,000.00	7/1/99	13.924%	
Business & Industry Dev. Corp.	7/3	138,000.00	7/1/99	13.924%	
Cleveland Area Dev. Fin. Corp.	7/3	147,000.00	7/1/99	13.924%	
Enterprise Development Corp.	7/3	169,000.00	7/1/99	13.924%	
Ark-Tex Reg. Dev. Co., Inc.	7/3	213,000.00	7/1/99	13.924%	
S.W. Michigan Dev. Co., Inc.	7/3	273,000.00	7/1/99	13.924%	
Greater Bakersfield LDC	7/3	278,000.00	7/1/99	13.924%	
Houston-Galveston Area LDC	7/3	294,000.00	7/1/99	13.924%	
Gr. Metro Chicago Dev. Corp.	7/3	300,000.00	7/1/99	13.924%	
Rural Enterprises D.C., Inc.	7/3	420,000.00	7/1/99	13.924%	
BEDCO Development Corp.	7/3	472,000.00	7/1/99	13.924%	
Phoenix Local Dev. Corp.	7/3	47,000.00	7/1/04	13.917%	
Alabama Community Dev. Corp.	7/3	67,000.00	7/1/04	13.917%	
Verd-Ark-Ca Dev. Corp.	7/3	68,000.00	7/1/04	13.917%	
Northeast Louisiana Ind., Inc.	7/3	69,000.00	7/1/04	13.917%	
Toledo Econ. Plan. Coun., Inc.	7/3	73,000.00	7/1/04	13.917%	
The St. Louis County L.D.C.	7/3	80,000.00	7/1/04	13.917%	
Long Island Dev. Corp.	7/3	80,000.00	7/1/04	13.917%	
Mahoning Valley Econ Dev Corp	7/3	82,000.00	7/1/04	13.917%	
Empire State Cert. Dev. Corp.	7/3	84,000.00	7/1/04	13.917%	
CCD Business Dev. Corp.	7/3	90,000.00	7/1/04	13.917%	
The St. Louis County L.D.C.	7/3	97,000.00	7/1/04	13.917%	
Greater Bakersfield LDC	7/3	101,000.00	7/1/04	13.917%	
Bennington County Ind. Corp.	7/3	105,000.00	7/1/04	13.917%	
Wisconsin Bus. Dev. Fin. Corp.	7/3	105,000.00	7/1/04	13.917%	
Chicago Ind. Finance Corp.	7/3	108,000.00	7/1/04	13.917%	
San Diego County LDC	7/3	115,000.00	7/1/04	13.917%	
Metro Growth & Dev. Corp.	7/3	117,000.00	7/1/04	13.917%	
Bay Area Employment Dev. Co.	7/3	121,000.00	7/1/04	13.917%	
Tulsa Economic Dev. Corp.	7/3	126,000.00	7/1/04	13.917%	
The Corp. for Economic Dev.	7/3	126,000.00	7/1/04	13.917%	
Minneapolis 503 Econ. Dev. Co.	7/3	129,000.00	7/1/04	13.917%	

*maturity extension

FEDERAL FINANCING BANK

JULY 1984 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)					
Orig Aurora & Colorado Dev Co	7/3	$ 143,000.00	7/1/04	13.917%	
Texas Cert. Dev. Co., Inc.	7/3	162,000.00	7/1/04	13.917%	
City-Wide Sm. Bus. Dev. Corp.	7/3	172,000.00	7/1/04	13.917%	
San Diego County LDC	7/3	174,000.00	7/1/04	13.917%	
The St. Louis County LDC	7/3	186,000.00	7/1/04	13.917%	
Texas Cert. Dev. Co., Inc.	7/3	186,000.00	7/1/04	13.917%	
Atlanta Local Dev. Co.	7/3	193,000.00	7/1/04	13.917%	
Texas Cert. Dev. Co., Inc.	7/3	213,000.00	7/1/04	13.917%	
Brockton Reg. Econ. Dev. Corp.	7/3	238,000.00	7/1/04	13.917%	
BEDCO Development Corp.	7/3	245,000.00	7/1/04	13.917%	
N. Puerto Rico L.D.C., Inc.	7/3	263,000.00	7/1/04	13.917%	
Columbus Countywide Dev. Corp.	7/3	281,000.00	7/1/04	13.917%	
Springfield Cert. Dev. Co.	7/3	290,000.00	7/1/04	13.917%	
Texas Panhandle Reg. Dev. Corp.	7/3	292,000.00	7/1/04	13.917%	
Gr. Spokane Bus. Dev. Assoc.	7/3	297,000.00	7/1/04	13.917%	
Oakland County Local Dev. Co.	7/3	300,000.00	7/1/04	13.917%	
Bay Area Bus. Dev. Co.	7/3	325,000.00	7/1/04	13.917%	
The St. Louis L.D.C.	7/3	339,000.00	7/1/04	13.917%	
San Antonio L.D.C., Inc.	7/3	346,000.00	7/1/04	13.917%	
Lapeer Dev. Corp.	7/3	378,000.00	7/1/04	13.917%	
Texas Cert. Dev. Co., Inc.	7/3	403,000.00	7/1/04	13.917%	
Evergreen Com. Dev. Assoc.	7/3	462,000.00	7/1/04	13.917%	
Louisville Econ. Dev. Corp.	7/3	500,000.00	7/1/04	13.917%	
Verd-Ark-Ca Dev. Corp.	7/3	500,000.00	7/1/04	13.917%	
Wisconsin Bus. Dev. Fin. Corp.	7/3	500,000.00	7/1/04	13.917%	
Greater S.W. Kansas CDC	7/3	19,000.00	7/1/09	13.884%	
Springfield Cert. Dev. Co.	7/3	24,000.00	7/1/09	13.884%	
Akron Small Bus. Dev. Corp.	7/3	39,000.00	7/1/09	13.884%	
Region Nine Dev. Corp.	7/3	48,000.00	7/1/09	13.884%	
Caprock Local Dev. Co.	7/3	62,000.00	7/1/09	13.884%	
Region Nine Dev. Corp.	7/3	67,000.00	7/1/09	13.884%	
New Haven Com. Investment Corp.	7/3	72,000.00	7/1/09	13.884%	
Mid-America Development Corp.	7/3	76,000.00	7/1/09	13.884%	
Verd-Ark-Ca Dev. Corp.	7/3	84,000.00	7/1/09	13.884%	
The St. Louis County L.D.C.	7/3	92,000.00	7/1/09	13.884%	
Coon Rapids Dev. Co.	7/3	96,000.00	7/1/09	13.884%	
Tucson Local Dev. Corp.	7/3	97,000.00	7/1/09	13.884%	
Columbus Countywide Dev. Corp.	7/3	116,000.00	7/1/09	13.884%	
Texas Cert. Dev. Co., Inc.	7/3	127,000.00	7/1/09	13.884%	
Econ Dev Corp of Shasta County	7/3	130,000.00	7/1/09	13.884%	
San Diego County L.D.C.	7/3	133,000.00	7/1/09	13.884%	
Railbelt Community Dev. Corp.	7/3	137,000.00	7/1/09	13.884%	
Evergreen Community Dev. Assoc.	7/3	154,000.00	7/1/09	13.884%	
Tucson Local Development Corp.	7/3	155,000.00	7/1/09	13.884%	
Ark-Tex Regional Dev. Co., Inc.	7/3	161,000.00	7/1/09	13.884%	
La Habra Local Dev. Co., Inc.	7/3	166,000.00	7/1/09	13.884%	
San Diego County L.D.C.	7/3	197,000.00	7/1/09	13.884%	
San Francisco Ind. Dev. Fund	7/3	213,000.00	7/1/09	13.884%	
Mid-America Dev. Corp.	7/3	227,000.00	7/1/09	13.884%	
New Castle County E.D.C.	7/3	236,000.00	7/1/09	13.884%	
Bus. Dev. Corp. of Nebraska	7/3	298,000.00	7/1/09	13.884%	
Greater Bakersfield LDC	7/3	394,000.00	7/1/09	13.884%	
Altoona Enterprises, Inc.	7/3	500,000.00	7/1/09	13.884%	
Garland LDC, Inc.	7/3	500,000.00	7/1/09	13.884%	
Small Business Investment Company Debentures					
Advent Atlantic Capital Co.	7/18	2,500,000.00	7/1/87	13.185%	
Northland Capital Corporation	7/18	100,000.00	7/1/87	13.185%	
Winfield Capital Corporation	7/18	300,000.00	7/1/87	13.185%	
Enterprise Venture Cap. Corp.	7/18	550,000.00	7/1/89	13.365%	
Federated Capital Corporation	7/18	300,000.00	7/1/89	13.365%	
Control Data Capital Corp.	7/18	3,000,000.00	7/1/91	13.445%	
Bando-McGlocklin Inv. Co., Inc.	7/18	560,000.00	7/1/94	13.445%	
Clinton Capital Corporation	7/18	1,000,000.00	7/1/94	13.445%	
Intercapco West, Inc.	7/18	500,000.00	7/1/94	13.445%	

FEDERAL FINANCING BANK

JULY 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-84-12	7/31	$ 523,601,925.91	10/31/84	10.835%	
DEPARTMENT OF TRANSPORTATION					
Section 511—4R Act					
Milwaukee Road #511-2	7/20	39,851.00	6/30/06	13.355%	

FEDERAL FINANCING BANK

JULY 1984 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Colombia	DOD	$ 7,000,000.00	6/30/85	6/30/91
Dominican Republic	DOD	2,500,000.00	4/30/86	4/30/96
Israel	DOD	250,000,000.00	7/7/88	7/10/14
St. Louis, MO	HUD	15,000,000.00	2/15/86	2/15/86
Waukegan, IL	HUD	1,500,000.00	9/1/85	9/1/85
South Mississippi Electric	REA	15,173,500.00	7/30/89	12/31/15
South Mississippi Electric	REA	127,283,000.00	7/30/95	12/31/18
Alabama Electric	REA	20,485,000.00	7/27/89	12/31/15

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	July 31, 1984	June 30, 1984	Net Change 7/1/84-7/31/84	Net Change--FY 1984 10/1/83-7/31/84
On-Budget Agency Debt				
Tennessee Valley Authority	$ 13,345.0	$ 13,255.0	$ 90.0	$ 230.0
Export-Import Bank	15,563.4	15,563.4	-0-	887.4
NCUA-Central Liquidity Facility	170.5	100.5	70.0	126.3
Off-Budget Agency Debt				
U.S. Postal Service	1,087.0	1,087.0	-0-	-67.0
U.S. Railway Association †	51.3	51.3	-0-	-73.4
Agency Assets				
Farmers Home Administration	58,856.0	57,701.0	1,155.0	2,165.0
DHHS-Health Maintenance Org.	116.1	119.5	-3.3	-2.7
DHHS-Medical Facilities	132.0	143.8	-11.8	-11.7
Overseas Private Investment Corp.	11.0	11.0	-0-	-5.3
Rural Electrification Admin.-CBO	3,467.5	3,467.5	-0-	-0-
Small Business Administration	40.9	41.8	-0.9	-7.5
Government-Guaranteed Lending				
DOD-Foreign Military Sales	16,684.2	16,562.1	122.0	2,390.8
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loan Guarantees	4.3	4.3	-0-	-40.7
DOE-Non-Nuclear Act (Great Plains)	1,262.5	1,176.5	86.0	377.0
DHUD-Community Dev. Block Grant	219.8	214.7	5.1	42.5
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,178.5	2,178.5	-0-	111.7
General Services Administration	413.3	413.3	-0-	-3.9
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	28.7	28.7	-0-	-0.4
NASA-Space Communications Co. †	908.2	891.3	16.9	-39.1
DON-Defense Production Act	2.8	2.6	0.2	1.7
Rural Electrification Admin.	20,670.9	20,611.3	59.9	1,732.0
SBA-Small Business Investment Cos.	861.1	853.7	7.4	56.7
SBA-State/Local Development Cos.	317.2	300.9	16.4	169.5
TVA-Seven States Energy Corp.	1,523.6	1,548.3	-24.7	105.1
DOT-Amtrak	-0-	-0-	-0-	-880.0
DOT-Section 511	159.4	159.4	-0-	-24.1
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 143,321.6	$ 141,733.5	$ 1,588.1	$ 7,239.8

*figures may not total due to rounding
†does not include capitalized interest

TREASURY NEWS

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

For Immediate Release
September 27, 1984

Contact: Alfred H. Kingon
566-8585

REGAN PROPOSAL TO INTERIM AND DEVELOPMENT COMMITTEES

Excerpts from Interventions and Communiques

THE PROPOSAL

-- For the spring session of the Interim Committee, I propose that the Committee discuss issues relating to the adjustment efforts and balance of payments prospects of member countries in the context of the global financial environment and in a medium-term framework. I would include in this discussion external indebtedness, capital flows among countries, exchange rate developments, trade policies, and the role of IMF surveillance relative to these issues. (Regan Interim Cmte. Statement)

-- For our spring session, I would suggest that the Development Committee focus on the keys to economic growth and sustainable payments positions over the medium and long-term. We should examine the structural and develoment constraints which hinder economic development including the question of external indebtedness. Trade policies and protectionism, obstacles to direct equity investment and capital flows should be priority areas to be addressed in the context of sustained growth and prudent management of debt amortization. (Regan Development Cmte. Statement)

-- ... these issues should include:

- o Economic Growth and attendant financing in developing countries.
- o Relative role and realistic prospects for ODA, commerical bank, and direct investment flows over the medium and longer term.
- o Medium-term prospects for restoration of developing country creditworthiness and the maintenance/expansion of the syndicated market for new credits.

R-2868

- o Protectionism and recommendations to the GATT for a new round of trade liberalization and/or for a GATT work program concerning performance requirements, Voluntary Restraint Arrangements and the like.
- o Realistic prospects for a direct exchange of external debt in developing countries for direct private investment to foster employment, economic growth, and lessen their debt service requirements. (Regan Development Cmte. Statement)

-- We cannot approach our discussions in a spirit of negotiation nor with the ever elusive hope of finding generalized solutions.... Financial and economic situations vary operationally...we will need to continue to respond to each situation on a case by case basis.... (Regan Development Cmte. Statement)

THE REACTION AND NEXT STEPS

-- It was agreed that, at its next meeting, the Interim Committee will discuss, in a medium term framework and in the context of global financial environment and the current approaches toward resolving debt problems, certain issues relating to the adjustment efforts and balance of payments prospects of member countries. These will include external indebtedness, international capital flows, trade policies, and the role of Fund serveillance in dealing with these issues. In this connection, it called on the Managing Director to prepare, in the framework of the Fund's competence, background papers for consideration by the Executive Board, and to report to the next meeting of the Committee, in order to provide a basis for its discussion of these issues. (Interim Committee Communique)

-- It was agreed that, at an extended meeting in spring 1985, the Development Committee will discuss, within the context of a medium- to long-term framework and the current approaches toward resolving debt problems, the structural and development aspects of the problems of developing countries in their efforts to achieve sound economic growth. These include, inter alia, external indebtedness, protectionism, commodity prices, interest rates, the structure of capital flows and obstacles to direct investment and equity capital flows. In this connection, it called on the Managing Director of the Fund and the President of the World Bank to prepare in close collaboration, contributing from the perspective of their respective mandates and competences, background papers for submission, after consideration by their respective Executive Boards, to the next meeting of the Committee. (Development Committee Communique)

# # #

TREASURY NEWS

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FOR IMMEDIATE RELEASE September 27, 1984

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DEPARTMENT OF THE TREASURY

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $ 8,285 million of 52-week bills to be issued October 4, 1984, and to mature October 3, 1985, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	10.31%	11.35%	89.575
High -	10.32%	11.36%	89.565
Average -	10.32%	11.36%	89.565

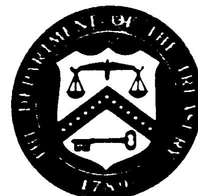
Tenders at the high discount rate were allotted 89%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 337,920	$ 49,070
New York	18,504,495	6,915,125
Philadelphia	13,035	7,035
Cleveland	101,925	38,625
Richmond	46,795	28,530
Atlanta	17,235	12,235
Chicago	1,146,685	89,505
St. Louis	92,515	50,515
Minneapolis	6,825	6,825
Kansas City	27,700	24,700
Dallas	6,105	6,105
San Francisco	1,999,255	956,505
Treasury	100,195	100,195
TOTALS	$22,400,685	$8,284,970
Type		
Competitive	$20,114,970	$5,999,255
Noncompetitive	410,715	410,715
Subtotal, Public	$20,525,685	$6,409,970
Federal Reserve	1,800,000	1,800,000
Foreign Official Institutions	75,000	75,000
TOTALS	$22,400,685	$8,284,970

R-2869

TREASURY NEWS



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

FOR IMMEDIATE RELEASE October 1, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,003 million of 13-week bills and for $ 6,015 million of 26-week bills, both to be issued on October 4, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 3, 1985			:	26-week bills maturing April 4, 1985		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	10.18%	10.59%	97.427	:	10.33%	11.05%	94.778
High	10.25%	10.67%	97.409	:	10.35%	11.07%	94.768
Average	10.23%	10.65%	97.414	:	10.35%	11.07%	94.768

Tenders at the high discount rate for the 13-week bills were allotted 54%.
Tenders at the high discount rate for the 26-week bills were allotted 83%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 335,780	$ 85,780	:	$ 319,120	$ 64,870
New York	12,406,830	4,462,130	:	14,337,315	4,686,415
Philadelphia	27,450	27,450	:	26,130	26,130
Cleveland	93,040	93,040	:	75,150	52,450
Richmond	53,385	53,385	:	68,235	64,065
Atlanta	63,870	63,870	:	57,625	53,115
Chicago	1,305,015	362,015	:	1,290,290	217,320
St. Louis	71,165	48,865	:	73,965	42,965
Minneapolis	12,010	12,010	:	14,510	14,510
Kansas City	71,825	71,825	:	55,790	55,480
Dallas	71,890	55,790	:	30,230	20,230
San Francisco	985,455	378,155	:	1,044,000	294,400
Treasury	288,870	288,870	:	422,595	422,595
TOTALS	$15,786,585	$6,003,185	:	$17,814,955	$6,014,545
Type					
Competitive	$12,644,835	$3,361,435	:	$14,644,850	$3,344,440
Noncompetitive	1,202,140	1,202,140	:	1,145,405	1,145,405
Subtotal, Public	$13,846,975	$4,563,575	:	$15,790,255	$4,489,845
Federal Reserve	1,531,010	1,031,010	:	1,500,000	1,000,000
Foreign Official Institutions	408,600	408,600	:	524,700	524,700
TOTALS	$15,786,585	$6,003,185	:	$17,814,955	$6,014,545

1/ Equivalent coupon-issue yield.

R-2870

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 2, 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 $13,200 million, to be issued October 11, 1984. This offering will provide about $700 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,493 million, including $1,006 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,835 million currently held by Federal Reserve Banks for their own account. The additional $700 million of new cash to be raised is based on the assumption that Congress will have completed action to increase the debt limit. The two series offered are as follows:

91-day bills (to maturity date) for approximately $6,600 million, representing an additional amount of bills dated July 12, 1984, and to mature January 10, 1985 (CUSIP No. 912794 GP 3), currently outstanding in the amount of $6,473 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,600 million, to be dated October 11, 1984, and to mature April 11, 1985 (CUSIP No. 912794 GZ 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing October 11, 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-2871

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Daylight Saving time, Tuesday, October 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 October 11, 1984, in cash or other immediately-available funds or in Treasury bills maturing October 11, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, 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 566-204

For Release Upon Delivery
Expected at 10:00 a.m. EDT
October 2, 1984

STATEMENT OF
RONALD A. PEARLMAN
ACTING ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
OF THE
HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to present the views of the Treasury Department regarding the generation-skipping transfer tax. I would like to begin by thanking the Chairman for calling this hearing and for introducing a bill (H.R. 6260) embodying the Treasury Department's 1983 Proposal to Simplify and Improve the Generation-Skipping Transfer Tax. I share the Chairman's hope that this hearing will be the beginning of a process that, with the cooperation of all interested parties, will lead to the resolution of the longstanding, difficult problem of finding a workable replacement to the current generation-skipping transfer tax.

Why A Generation-Skipping Transfer Tax Is Essential

Perhaps the best way to appreciate the need for a generation-skipping transfer ("GST") tax is by analogy to the gift tax. Just as a gift tax is essential to prevent an individual from avoiding the estate tax in his own generation, a GST tax is necessary to prevent an individual from transferring wealth to his descendants in a form that avoids the estate or gift tax in succeeding generations. To see that this is so, one need only to look to the fact that long-term, multi-generational trusts are so prevalent in the estate plans of wealthy

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individuals. Had Congress recognized and acted upon the generation-skipping problem at the time the gift tax was enacted, this would not be possible. While we are not suggesting that Congress should attempt to impose a tax on existing generation-skipping arrangements, we believe it is essential that Congress prevent this erosion of the federal transfer tax base for future generations.

Perhaps a more significant reason for imposing a tax on generation-skipping transfers is that a transfer tax system without such a tax is fundamentally unfair. This stems from the fact that the wealthiest individuals are in the best position to engage in generation-skipping transfers while those of more modest wealth may be reluctant to enter into such arrangements.

This has two effects. First, it greatly undermines the progressivity of the federal transfer tax system. If families of modest wealth are paying a transfer tax in every generation while the wealthiest families are paying tax every other generation (or less frequently), the progressivity of the system is turned upside-down. Second, an estate tax without a GST tax has the perverse effect of taxing wealth that an individual has accumulated during his own lifetime more harshly than wealth that has been inherited. Newly accumulated wealth generally cannot be passed to lower generations without the payment of an estate or gift tax. On the other hand, inherited wealth is often received in a form that allows it to escape estate tax at the death of the recipient. Treasury believes that the form in which property is transmitted from generation to generation should not affect the transfer tax burden on that property and that inherited wealth should not be taxed more favorably than assets than an individual accumulates during his own lifetime.

The final reason for supplementing the federal estate and gift tax with a GST tax is that, without such a supplement, the transfer tax system is not neutral, that is, it biases taxpayers' decisions about how to transfer their property during lifetime and at death. Without a GST tax, the estate tax encourages those taxpayers who might otherwise be inclined to leave property outright to their children to create trusts for the benefit of their children and lower generations. While there are many legitimate, nontax reasons for using flexible trusts, the tax system should not encourage people to enter into such arrangements purely for tax reasons.

Treasury's 1983 Proposal

Bearing in mind the principles of fairness, neutrality, and protection of the transfer tax base, Treasury set out to design a

new tax on generation-skipping transfers. Of course, we were not writing on a clean slate; Congress adopted such a tax as part of the Tax Reform Act of 1976 and this tax is still in effect.

Since its enactment, the present GST tax has been the subject of a good deal of criticism. While Treasury believes that many of the criticisms of the existing generation-skipping transfer tax have been greatly overstated, we have concluded that the 1976 statute does present a number of real problems.

Chief among these problems is the complexity of the current GST tax. It would appear that, in a well-meaning attempt to design a system that achieves perfect neutrality between generation-skipping transfers and transfers that do not skip generations, Congress enacted a tax system that is too difficult for many practitioners to understand and, in certain respects, too complex for Treasury and the IRS to administer.

Second, the current GST tax has an impact upon too many taxpayers. As mentioned above, the generation-skipping problem is largely confined to wealthy taxpayers. The current GST tax is not so limited. As a result, even individuals with relatively modest accumulations of wealth need to take into account the current GST tax in planning their estates.

Finally, even if the tax could be enforced and administered as intended by Congress in 1976, it would not cure the generation-skipping problem. Soon after enactment of the tax, it was observed that the wealthiest transferors can largely avoid the impact of the tax by "layering" their estates, that is, by setting up separate trusts for children and grandchildren. Since the 1976 tax applies only to trusts that have beneficiaries in more than one generation, the layering technique effectively avoids the tax on the assets passing directly to the grandchildren. Moreover, even for transferors who do not layer their estates, the tax can be avoided through the use of three major exceptions built into the 1976 statute: (1) the $250,000 exemption for transfers to grandchildren; (2) the rule that a power to appoint property among the lineal decedents of the grantor does not cause the holder of such a power to be treated as a beneficiary of a trust; and (3) the complete exemption from the GST tax of distributions out of current trust income.

Putting together the experience under the 1976 statute with the general principles set forth above, we have reached three major conclusions:

1. A large exemption is necessary to eliminate the vast majority of taxpayers from the GST tax system. Such an exemption would mean that, as a practical matter, most taxpayers and most

tax practitioners could plan their affairs without regard to the GST tax. Also, from an administrative standpoint, a tax affecting a relatively small number of taxpayers would be more manageable. On the other hand, the exemption level should not be set higher than necessary to accomplish these goals.

2. The tax should be applied at a flat rate. This change would make the tax easier to understand and apply for those taxpayers remaining within the system and would ease further the problems of administering the system.

3. Finally, a transfer tax must be imposed at each generation level in order for the tax to be effective, fair and neutral.

At the outset, I would like to emphasize that the notion that a transfer tax should be imposed once per generation was not the starting point for Treasury's analysis; it was the conclusion that we reached by applying the general principles noted above to the problem at hand. Since this is clearly the most important and controversial aspect of Treasury's proposal, I would like to turn immediately to the reasons for reaching this conclusion.

A Tax on Direct Generation-Skipping Transfers

If a GST tax is to be imposed at all, it seems fairly clear that it should apply to a situation where a grandparent sets up a trust for the benefit of his child and his grandchildren, giving the child an interest in the income and corpus of the trust during his lifetime and the power to say where the property is transferred at his death. As noted above, if such a tax is not imposed, the transfer tax system discriminates heavily against outright transfers to children and in favor of such multi-generational trust arrangements since, in the latter case, it is possible to avoid the estate tax payable at the death of the child.

Recognition of this fact led to the enactment in 1976 of the current tax on generation-skipping transfers. The 1976 statute treats the child, in effect, as if he had been the owner of the property and had transferred it to his grandchildren.

The question of whether a tax should be imposed at the child's level becomes harder to answer, though, if the child is given a smaller bundle of rights with respect to the trust property. What if the child is given a life income interest but no power over the trust property at his death? What if the child has no right to receive trust property himself but is given complete discretionary power to say who receives the trust property during his lifetime and at his death? Does it matter whether the child's power is held as a trustee? What if the child has no absolute right to receive trust income and no power

to direct the disposition of trust property but is a permissible recipient of distributions from the trust if needed for his health, education, support or maintenance?

The current GST tax answers these questions by providing that any interest in the trust property held by the child (no matter how small) will trigger imposition of the tax but that powers over the disposition of trust property will be ignored as long as the power is limited to the power to appoint among lineal descendants of the grantor. This system eliminates the disparity between giving the child outright ownership of the property and making him one of several beneficiaries of a flexible trust. However, the system is far from neutral; it merely substitutes one disparity for another. If the transferor is willing to withhold from his child the right to receive property from the trust during his lifetime but gives the child full control over disposition of property to the child's children, grandchildren siblings, nephews and nieces (clearly an important attribute of ownership), no tax is imposed at the child's death. On the other hand, if the child is given merely a contingent right to receive trust corpus, the entire trust is taxed at his death, even if the child never receives a cent from the trust.

If the child is of a relatively modest wealth, the decision whether to give a child an interest in a trust may be a difficult one. In the event of an emergency or a sharp change in economic circumstances, the child may need or want to have access to the trust. On the other hand, the child may never need the trust property. The current GST tax says in effect that if flexibility is retained, a tax will be imposed; if flexibility is forgone, the tax can be avoided. Ironically, by imposing the GST tax on this basis, the 1976 statute replaces the bias that the estate tax creates in favor of flexible trusts with a strong prejudice against such arrangements.

Moreover, the current system is inequitable in that the wealthiest taxpayers are best able to avoid the tax. Consider, for example, a taxpayer with one child and three grandchildren and with assets of $3,000,000. The child is a successful professional with a net worth of several hundred thousand dollars. The grandchildren are still minors. In planning his estate, this taxpayer would probably be reluctant to leave any substantial portion of his wealth in a trust where the child was given no interest in the property. Absent tax considerations, the taxpayer would most likely want to leave most of his wealth outright to his child or in a flexible trust for the benefit of the child and the three grandchildren. Even though the current tax system tells him that if he transfers property directly to his grandchildren, he avoids a tax in his child's estate, he probably would continue to be reluctant to transfer more than 10-20 percent of his wealth directly to grandchildren.

Now change the example so that the grandparent has a net worth of $30,000,000 and the child is a millionaire in his own right. (The family structure is the same.) Absent tax considerations, this wealthier taxpayer might have plans similar to those of his less wealthy counterpart for disposition of his wealth at his death. However, the wealthier taxpayer is likely to respond quite differently to a GST tax imposed on any property in which his child has an interest. For example, this transferor might well divide his wealth into two trusts: (1) a $5,000,000 trust in which the child is given an income interest and limited rights to receive trust principal (with remainder to the grandchildren) and a $25,000,000 trust in which the child has no interest but over which the child is given a complete discretionary power to determine the timing and amounts of distributions to the grandchildren. Thus, while it is likely that a second transfer tax in the child's generation will apply to 80 to 90 percent of the $3,000,000 accumulation of wealth, as little as 10 to 20 percent of the $30,000,000 accumulation will be subject to this second tax. A system that allows such a result is simply unfair and, as applied to the wealthiest taxpayers, largely ineffective.

What then is the solution? The lack of neutrality and unfairness cannot be cured by treating any power of appointment over property as a taxable ownership interest. This simply moves the disparity to yet another place. Congress tried this approach once in 1942, with disastrous results. Under the 1942 law, property was included in the estate of anyone having a power of appointment over the property (with certain exceptions). Rather than collecting any additional tax, this approach merely forced taxpayers to dispose of their property in rigid and inflexible ways. Congress recognized this fact in 1951 and revised retroactively the tax treatment of powers of appointment, so that property subject to a power of appointment would be included in the holder's estate only if the holder had the right to appoint the property to himself, his estate, his creditors or the creditors of his estate (known as a "general" power of appointment).

After considerable study of this difficult problem, Treasury has concluded that the only way to impose a generation-skipping transfer tax that is an effective backstop to the estate and gift tax system and that results in fairness and neutrality is to impose a tax in each generation, regardless of whether a member of that generation has an interest in or power over such property.1/ If a generation-skipping transfer tax is imposed on transfers from a grandparent directly to a grandchild (a "direct skip" in the language of H.R. 6260), property passing from the grandparent to the grandchild will always be subject to

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1/ It is important to note that the ALI Discussion Draft (H.R. 6261) is based on the same fundamental conclusion.

two transfer taxes, whether property passes first outright to the child, through a flexible trust, or directly to the grandchild. Thus, the tax incentive for making direct skips disappears.

This makes the system neutral because taxpayers with accumulations of wealth are free to let nontax considerations determine how they pass their wealth down to their families. It makes the system fair because the wealthiest families will pay tax on the same basis as families of more modest wealth. And the tax is effective since no amount of clever planning can avoid the imposition of the second tax in the child's generation.

Before leaving this subject, I would like to respond to two arguments frequently made against the imposition of a GST tax on a transfer directly from a grandparent to a grandchild. First, it is argued that if the property is transferred in a direct skip from a grandparent to a grandchild, there is only one transfer so there should be only one tax. This argument has intuitive appeal but it misses an essential point -- imposition of the GST tax on direct skips is necessary for the transfer tax system to work properly. Again, the gift tax provides a useful analogy. Before 1932, people were accustomed to thinking of the estate tax as a tax that applied only at death. This view had to be expanded to include lifetime transfers to prevent taxpayers from avoiding the estate tax in their own generation. Similarly, it is necessary today to expand our thinking about the proper structure of the transfer tax to prevent taxpayers from avoiding such a tax in their children's generation. It is no more persuasive to argue today that one transfer implies one tax than it would have been to argue in 1932 that a lifetime transfer should not be subject to a transfer tax because it does not involve a transfer by a decedent.

Second, it is sometimes argued that a tax on a direct skip from a grandparent to a grandchild unfairly penalizes such transfers when compared to transfers to children. In fact, the tax on direct skips is not a penalty at all; it merely neutralizes the tax advantage that would otherwise attach to these transfers. In other words, without a tax on direct skips, a transfer to a child followed by a retransfer to the grandchild is penalized since the property received will have been subject to two transfer taxes by the time the grandchild receives the property. Property transferred directly to grandchildren will be subject to only one transfer tax unless a GST tax is imposed on direct skips.

We recognize, of course, that there are many legitimate, nontax reasons for wishing to make transfers to grandchildren instead of (or in addition to) transfers to children. Moreover, when relatively small amounts are involved, transfer taxes are

often an insignificant consideration. In part for this reason, our proposed GST tax would not apply to cumulative transfers of up to $1 million.

I turn now to issues considerably less complicated and controversial than whether to impose a tax on direct skips.

When to Impose the Tax

Having decided how many transfer taxes should be imposed, Treasury next faced the issue of when a tax should be imposed on a generation-skipping transfer. To answer this question, we adopted the basic principle that the tax should be imposed as soon as the fact and amount of the generation-skipping transfer becomes certain.2/ This works out in the following way:

If an individual creates a trust for the benefit of his children and grandchildren, neither the fact nor the amount of the generation-skipping transfer is known when the trust is created. At one extreme, all of the trust property may be distributed out to the children, resulting in no generation-skipping transfer whatsoever. At the other extreme, the children may receive no income or corpus from the trust, so that all the trust property passes to grandchildren and skips the children's generation. In many cases, the result will be somewhere in-between.

For any property held in a multi-generational, flexible trust, the fact and amount of a generation-skipping transfer does not become certain until the interests of all the children in that property terminates. This can happen either by an actual distribution of trust property to a grandchild (which is referred to as a "taxable distribution") or by a complete termination of all interests in the trust held by children (referred to as a "taxable termination"). As with the 1976 GST tax, the Treasury proposal imposes a tax upon taxable distributions and taxable terminations.

With respect to an outright transfer to a grandchild, the fact and amount of the generation-skipping transfer is certain at the time of the transfer. The same is true of a transfer to a trust exclusively for the benefit of one or more of the

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2/ The ALI Discussion Draft adopts a different principle -- a tax is imposed when property is distributed or transferred to a beneficiary two or more generations below the transferor, but in no event later than the death of the last grandchild.

transferor's grandchildren.3/ Thus, in both of these cases, the GST tax is imposed at the time of transfer under the Treasury proposal.

At first, it may seem that this rule results in a more harsh treatment of direct skips than taxable distributions and taxable terminations. In fact, this is not so. It has long been recognized that an early payment of a transfer tax carries with it a detriment and an offsetting benefit. The detriment is obvious: the taxpayer must part with his money sooner, thereby losing the value of the use of that money (the investment income it would produce). The offsetting benefit is that the transfer tax base is the value of the property at the time of the earlier payment; any appreciation in value of the property subsequent to the transfer is not subject to tax. If the rate at which the property appreciates in value (or produces income) is equal to the rate of return the taxpayer could have received on the funds use to pay the transfer tax, and if the tax rate that would be applied at both times is the same, the detriment and benefit offset exactly.

Without this fundamental fact, a unified estate and gift tax using the same rate schedule would discriminate heavily against lifetime gifts. Were it not for the possibility of excluding future appreciation from his transfer tax base, no taxpayer would ever make a taxable lifetime gift unless he were given a substantial discount on his gift tax payment. Conversely, the recently enacted unlimited marital deduction would be unthinkable from the Government's standpoint. The effect of the unlimited marital deduction on Government revenues would be intolerable were it not for the fact that the transfer tax base continues to grow during the lifetime of the surviving spouse (to the extent it is not consumed).

This same principle is applicable to the timing of payment of the GST tax. Accordingly, the fact that a tax on a direct generation-skipping transfer is paid up-front while the tax on taxable distributions and taxable terminations is postponed does not mean that direct skips are treated unfairly. Moreover, as will be seen below, direct skips are treated more favorably in one respect than other generation-skipping transfers.

3/ Under H.R. 6261, the tax is not imposed until actual distributions to grandchildren are made, or until the last grandchild dies.

Rate of Tax

As noted above, a fundamental aspect of Treasury's 1983 proposal is that the generation-skipping transfer tax should be imposed at a flat rate.4/ This decision was motivated primarily by a desire to achieve simplicity -- a major problem with the 1976 GST tax is the difficulty of calculating a tax that is based on the tax profile of a "deemed transferor." (The difficulties result from identifying the deemed transferor and accounting for the fact that his tax profile changes over time.) Moreover, since the Economic Recovery Tax Act of 1981 significantly narrowed the range of effective estate tax rates (from 37 to 50 percent, eventually), a flat GST tax rate is justifiable.

Treasury has suggested that the GST tax rate be 80 percent of the top estate tax rate. This proposal represents a compromise between two competing considerations. On the one hand, the highest transfer tax rate should apply to generation-skipping transfers by the very wealthiest individuals to achieve the goals of neutrality and fairness. On the other hand, we recognized that, even with a $1,000,000 exemption, some taxpayers would remain in the GST tax system who were not in the highest transfer tax bracket. Moreover, since the GST tax is a substitute for the transfer tax in the children's generation, we had to acknowledge that these children would not invariably be in the top bracket.

Recognizing that no single flat rate can achieve perfect fairness and neutrality for every family situation, we have proposed a flat rate equal to 80 percent of the top estate tax rate (currently producing a GST tax rate of 44 percent).5/

Two points should be emphasized. First, this rate cannot be lowered without seriously compromising the effectiveness of the proposed GST tax as applied to the wealthiest taxpayers. Just as Congress recognized in 1976 that gift tax rates must be the same as estate tax rates in order for the gift tax to be effective, it must be recognized that if the GST tax rate is significantly lower than the top estate tax rate, the GST tax will not work properly.

4/ The ALI Discussion Draft reflects the same conclusion.

5/ The ALI Discussion Draft proposes that the top estate tax rate be used. This is deceptive, however, since the tax under H.R. 6261 generally is imposed on a tax exclusive basis. See the discussion below.

Second, the choice of 80 percent of the top estate tax rate is clearly linked to the choice of a $1,000,000 exemption. (The reason for this choice is discussed below.) If for any reason, Congress decides that a higher exemption level is necessary or appropriate, the justification for deviating from the top estate tax rate disappears.

Basis for Imposition of the Tax -- "Inclusive" vs. "Exclusive"

The next feature of the Treasury's proposal concerns the calculation of the tax base upon which the flat rate of tax is imposed. This issue arises because the estate and gift tax do not calculate the tax base in a consistent manner. The estate tax is imposed on the entire amount available for transfer; the amount that actually goes to pay the tax is not excluded from the base. To illustrate, if the estate tax were imposed at a flat rate of 50 percent, and if a decedent died with an estate of $1,000,000, the tax would be $500,000, leaving $500,000 for the beneficiaries. Because the tax base includes the amount used to pay the tax, the estate tax is said to be imposed on a "tax inclusive" basis.

By contrast, the gift tax is imposed only on the amount ultimately received by the donee. Thus, if the gift tax were imposed on this basis at a flat rate of of 50 percent, a transfer of $500,000 would attract a tax of only $250,000. Looked at another way, the tax is only 33-1/3% of the total amount ($750,000) that is available to make the transfer and pay the tax thereon. Since the gift tax base does not include the amount used to pay the tax, the gift tax is said to be imposed on a "tax exclusive" basis.

Many have argued that there is no good reason for imposing the estate and gift tax on different bases, especially in light of the effort in 1976 to provide a fully unified estate and gift tax system. While this question is open to debate, the difference between the estate and gift tax is an undeniable feature of the present transfer tax system and one that makes the design of a neutral GST tax system considerably more difficult. More specifically, in designing a GST tax system to prevent the avoidance of a transfer tax in the generation below that of the transferor, one must ask whether the transfer tax being avoided is an estate tax or a gift tax.

In the case of a classic generation-skipping trust, where a child of the grantor is given an interest in the trust property during his entire lifetime, it would seem that the tax being avoided is an estate tax. Thus, under the current GST tax and the Treasury proposal, the tax on taxable terminations is imposed on a tax inclusive basis. If the tax on terminations were imposed on a tax exclusive basis, the effective rate of tax would

be reduced significantly and substantial incentives would remain in the system for people in the top brackets to continue to use generation-skipping trusts.

At the other extreme, when a grandparent makes a direct skip to a grandchild, it seems more appropriate to say that a gift tax is being avoided since the grandparent could have transferred the property to the child who would make an immediate gift of the same property to the grandchild. Therefore, the Treasury proposal imposes the tax on direct skips on a tax exclusive basis. In reaching this conclusion, we took into account the fact that many taxpayers would not easily accept the notion that paying the tax on a direct skip up-front would carry with it an offsetting benefit of excluding subsequent appreciation from the tax base. Moreover, imposing the tax on direct skips on a tax exclusive basis serves to alleviate the hardship arising from having to pay two transfer taxes at the same time. In fact, the maximum marginal rate of tax applicable to a lifetime gift to a grandchild is only 55.2 percent when computed on a tax inclusive basis. This is insignificantly higher than the maximum rate of 55 percent that would apply to bequests to children.

The basis for taxing distributions from trusts is less clear. The current GST tax imposes the tax on distributions on a tax inclusive basis. This creates a highly desirable neutrality with respect to taxable terminations. On the other hand, it may be argued that distributions while a child is still alive are more like gifts by the child, so the tax should be imposed on a tax exclusive basis.

We have concluded that it is essential that taxable distributions be taxed on the same basis as taxable terminations. If this were not the case, then in a flexible trust for children and grandchildren, the grandchildren of the last child to die suffer a harsher GST tax than those of all other children. Moreover, to prevent avoidance of the tax inclusive tax on a taxable termination, it would be necessary to treat trust distributions within a short time before a taxable termination as if the distributions had not been made (similar to section 2035, involving gifts within 3 years of death). Hence, under the Treasury proposal, taxable distributions are taxed on a tax inclusive basis.6/

6/ The ALI Discussion Draft taxes outright skips and taxable distributions on a tax exclusive basis and taxable terminations on a tax inclusive basis. Unfairness to the beneficiaries of t last grandchild to die is avoided by treating any distribution within 9 months after a taxable termination as a taxable distribution. Thus, unless the trust continues beyond the deat of the last grandchild, the GST tax under H.R. 6261 will always be imposed on a tax exclusive basis.

A Large Up-Front Exemption

The third major feature of Treasury's GST tax proposal is to give each individual a $1,000,000 GST tax exemption. The clear advantage of this approach is that the vast majority of taxpayers, including all those with modest accumulations of wealth, are completely shielded from the impact of the GST tax system. This means that if an individual's transfers during lifetime and at death total no more than $1,000,000, he can safely ignore the GST tax in planning his estate -- it will never apply to any transfer made by that individual nor to any trust created by that individual.

Treasury believes that an up-front exemption is a highly desirable feature of the GST tax for essentially two reasons. First, it limits the impact of the GST tax to that class of taxpayers where generation-skipping is most prevalent: wealthy individuals. Second, it removes the need for most tax practitioners and trustees to master and apply the GST tax. While we believe that Treasury's proposed new GST tax is considerably simpler than the current GST tax, it is obvious that certain complexities remain. This is inevitable; any GST tax that attempts to be reasonably fair and neutral will involve some complexity. We feel, however, that the remaining complexities are not unmanageable by those who will be advising the relatively few wealthy individuals who remain within the system.7/

As to the size of the exemption, the choice of a $1,000,000 figure again represents a compromise. The exemption level cannot be set too low -- otherwise, too many taxpayers would remain within the system. Perhaps more significantly, given the decision to impose a flat rate of tax, a relatively low exemption level would argue for a lower flat rate of tax in order to avoid unfairness. A lower rate, however, would seriously dilute the effectiveness of the tax as applied to the wealthiest individuals.

On the other hand, the exemption level should not be set too high. Since our proposal involves free transferability of the exemption between spouses, a $1,000,000 exemption per individual

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7/ The ALI Discussion Draft uses a credit mechanism rather than a exemption. Treasury acknowledges that a credit produces a more effective tax since transferors cannot place property in a trust that shields that property and all future appreciation from the GST tax. We feel, however, that the need to limit the scope of the GST tax justifies the use of an exemption.

effectively becomes a $2,000,000 exemption per married couple. Moreover, the exemption need not be applied to any portion of the combined taxable estate that is used to pay federal estate taxes. An estate of approximately $1.25 million would pay approximately $250,000 in estate tax after 1986, leaving $1,000,000 of property which could be completely shielded from the GST tax. Thus, a combined estate of $2.5 million would be free from the GST tax.8/

We estimate that of the 2,000,000 decedents projected to die in 1988, only 9,000 will have gross estates in excess of $1.25 million.9/ This represents only 35 percent of those 25,800 decedents whose estates will be large enough to be subject to the federal estate tax and only 0.45 percent of all decedents dying in 1988. Of course, the number of decedents having <u>taxable</u> estates in excess of $1.25 million will be far smaller in light of extensive use of the charitable deduction and the unlimited marital deduction.

8/ This assumes the estate is split evenly between the two spouses. If this is not the case (for example, if the unlimited marital deduction is fully utilized), the maximum combined exempt estate would be even larger.

9/ 1988 was chosen for this illustration since the unified credit will be fully phased in and the top rate will be lowered to 50 percent by that time.

The following table shows the impact on the above statistics of raising or lowering the $1,000,000 exemption level:10/

Exemption Level	Maximum Exempt Gross Estate	No. of Decedents Remaining in System	Percent of Decedent Remaining in System	Percent of All Decedents
$ 600,000	$ 600,000	25,800	100%	1.30%
1,000,000	1,260,000	9,000	35%	0.45%
1,250,000	1,705,000	5,300	21%	0.27%
1,500,000	2,173,000	3,600	14%	0.18%
1,750,000	2,666,000	2,700	10%	0.14%
2,000,000	3,166,000	1,900	7%	0.10%
2,250,000	3,666,000	1,500	6%	0.08%
2,500,000	4,166,000	1,100	4%	0.06%

This table shows that for each additional $250,000 exemption, the maximum exempt estate increases by approximately $500,000. Thus, the maximum exempt combined estate increases by $1,000,000. (This assumes a top rate of 50%; the effect is even greater at a top rate of 55%.) The table also reveals the astounding fact that if the GST exemption level is raised to $2.5 million, a couple with a combined taxable estate of over $8.3 million will be able to shield their after-tax estate from the GST tax. This would leave no more than a few hundred decedents subject to the GST tax each year (taking into account the charitable and marital deduction).

In light of the above considerations, we strongly urge the Committee not to deviate significantly from the $1,000,000 exemption level.11/ If the Committee nevertheless decides to increase the amount of the exemption, we believe that serious consideration should be given to a flat tax imposed at 100 percent of the top estate tax rate.

10/ This table represents a projection forward to 1988 of data gathered from 1982 estate tax filings. No attempt has been made to adjust for the probable effect of the changes made by ERTA (in particular, the unlimited marital deduction) on the size of gross estates.

11/ The ALI Discussion Draft has a credit of $417,000, which is equivalent to an exemption of $834,000 (disregarding the appreciation factor).

Tax on Distributions of Trust Income

Under the current GST tax, distributions out of current trust income are completely exempt from tax. The primary justification for this exception apparently was that applying the tax to such distributions would be too complex.

While it cannot be denied that exempting distributions out of current trust income from the GST tax simplifies the system, it also creates a major loophole. Furthermore, it destroys the neutrality of the GST tax system.

If an individual transfers property outright to a child, and if the child regularly transfers all of the income from that property to his children (grandchildren of the original transferor), the child would be treated as making taxable gifts of the income to the grandchildren. If, on the other hand, the property is transferred to a trust, and if distributions out of the trust to the grandchildren are free from the GST tax, no transfer tax is ever paid on the value of the use of the property during the child's lifetime. In other words, the trust allows the child, in effect, to make tax-free gifts of the trust income to the grandchild during his lifetime, with no gift tax consequences until the child's death. This is the same type of abuse that the Supreme Court recently held to be impermissible in the Dickman decision.

Such a result clearly cannot be permitted if the GST tax is to be at all effective. Moreover, whatever the complexities would have been of taxing income distributions under the 1976 GST tax statute, these difficulties are considerably lessened under the Treasury proposal. From the standpoint of computation, the calculation is not at all difficult since the GST tax is imposed at a flat rate. Also, the mechanism for avoiding the imposition of an income tax and a transfer tax on the same amount is quite simple: the recipient of the distribution is given an income tax deduction for any GST tax attributable to the distribution.12/ Finally, from the standpoint of trust administration, the tax on income distributions should not be overly burdensome on trustees since relatively few trusts will be subject to the GST tax in light of the $1,000,000 exemption.

12/ The ALI Discussion Draft also taxes distributions of trust income. However, this proposal uses the opposite mechanism for avoiding double tax: a GST tax deduction is given to reflect the income tax to be paid by the recipient.

Effective Dates

The Treasury Department has proposed that the current GST tax be repealed retroactively and that its replacement be applied on a prospective basis, with the effective date deferred one year for transfers taking place at death. While we recognize that this proposal in effect grants a windfall to those generation-skipping trusts that would be taxable under the current GST tax as well as under the Treasury proposal, we do not feel that it is worth keeping the current GST tax alive simply to govern these trusts. Also, we do not believe it is possible to devise a fair and simple way of applying the Treasury proposal retroactively to existing trusts.

We recognize, however, that a bill that would repeal the current GST tax could create a "window of opportunity" for those individuals willing to create lifetime generation-skipping trusts. We believe that it would not be unreasonable for this Committee to close this window by providing an earlier effective date for lifetime transfers to generation-skipping trusts.

Specific Issues on Which Public Comment Is Requested

Trusts Skipping More Than One Generation

The Treasury proposal is designed to prevent the avoidance of a transfer tax in the generation of the transferor's children. It does not prevent transferors from avoiding transfer taxes in any lower generations.

For essentially two reasons, Treasury decided not to attempt to apply the general principles of its proposal to impose multiple GST taxes on trusts and direct skips that avoid tax in more than one generation. First, we think that taxing the first generation skip would largely cure the generation-skipping problem. In our view, most taxpayers would be willing to tie up their property in a trust for one generation or make a direct skip to grandchildren to avoid a transfer tax in their children's generation, but would not be willing to tie up property for two or more generations or make direct skips to great-grandchildren to derive the more remote benefit of avoiding transfer taxes in those lower generations. Second, a truly neutral tax that applied once each generation would be exceedingly complex. For example, under such a system, a distribution from a multi-generational trust to a great-grandchild before the death of the last child would have to be treated as a taxable distribution with respect to the child's generation and a direct skip with respect to the grandchild's generation. Rules would have to be provided for the interaction between these two taxes.

In spite of these concerns, we recognize that it seems anomalous to tax the first generation skip from a trust while letting all subsequent generation skips escape tax, especially in jurisdictions where the Rule Against Perpetuities does not limit the term of the trust. In light of this concern, we do not believe it would be unreasonable to provide that where property continues in a multi-generational trust beyond the death of the last child of the grantor, additional taxes will be imposed on the termination of the interest of each generation in the trust and upon distributions to beneficiaries two or more generations below the level of the last generation to pay a transfer tax on the property. Since a rule of this type would never result in more than one GST tax being imposed at the same time, it could be drafted relatively simply. Statutory language that would accomplish the desired result is attached to this testimony as Appendix A.

Transferability of the $1,000,000 Exemption

Treasury believes that transferability of the $1,000,000 exemption between spouses is an essential feature of our proposal, especially as it applies to transferability of the exemption at the death of the first spouse. If an individual could not transfer any unused GST exemption to a surviving spouse, he would be forced to choose in many cases between utilizing his GST exemption and maximum use of the unlimited marital deduction. In such a circumstance, it could hardly be said that individuals with a combined estate of $2,000,000 or less could ignore the GST tax in their estate planning.

On the other hand, Treasury generally did not intend for the transferability of the GST exemption to result in exempt transfers to the issue of a single marriage in excess of $2,000,000. While we question whether GST-tax-motivated marriages would in fact become prevalent, we would be happy to work with the Committtee to identify legitimate concerns and to fashion reasonable solutions.

$10,000 Per Year Exemption for Certain Distributions

The Treasury proposal would provide an exemption of up to $10,000 per year for distributions to certain trust beneficiaries. This exemption would be available only after the death of the grantor and during the lifetime of a child of the grantor and only for distributions to beneficiaries in the grandchildren's generation.

The origin of this exemption lies in the fact that the $1,000,000 GST exemption creates an incentive for individuals to make fully exempt direct skips to grandchildren or to trusts for

the exclusive benefit of grandchildren. These transfers assure that no portion of the exemption will be "wasted" on trusts making distributions to children.

For reasons that have already been discussed, however, individuals of relatively modest wealth will be reluctant to transfer $1,000,000 ($2,000,000 in the case of a married couple) in a form that completely skips their children's generation. The proposed $10,000 exemption will enable these individuals to create a single, partially exempt trust for the benefit of children and grandchildren. If such a trust is created, the $10,000 exemption for distributions to grandchildren generally will offset any detriment from diminishing the trust by distributions to children.

We recognize that the proposed $10,000 exemption is only an approximate cure to the problem of assuring transferors of modest wealth that their GST exemption will not be wasted. Hence, we would be happy to work with the Committee to explore alternative solutions to this problem. In particular, we believe that the alternative outlined in the Committee's release of September 18, 1984, allowing for the exemption to be allocated among distributions to children and grandchildren, is worth exploring in greater detail.

<u>Credit for State Death Taxes</u>

The Treasury Department proposal would allow a credit against the revised GST tax for State "GST" taxes. This would effectively share the revenue raised by the GST tax with the States. Treasury does not have strong views on whether such a revenue sharing mechanism should be a part of the GST tax system, nor on the appropriate level of revenue sharing. It is our view, however, that if a credit for State death taxes is allowed against the GST tax, it should be limited (primarily for reasons of simplicity) to State generation-skipping transfer taxes, that is, taxes specifically enacted to parallel the federal GST tax.

<u>Comparison of the Treasury Proposal with the ALI Discussion Draft</u>

In closing, I would like to say a few words about the similarities and differences between the Treasury Department proposal and the ALI Discussion Draft. The various differences as to exemption versus credit, timing, rate of tax, basis for imposing a tax (tax exclusive versus tax inclusive), and other issues have been footnoted in the preceding text.

I would like to emphasize, however, that in overall structure and in general philosophy, the similarities of the two proposals far outweigh these differences. Both proposals abandon

the notion of a tax and exemption level based on the tax profile of a "deemed transferor" in favor of a flat rate of tax and an independent mechanism for removing smaller transfers from the system. Both proposals would apply a tax to distributions out of current trust income, unlike the current GST tax. Finally, both proposals embody the conclusion that a tax must be imposed on direct skips (outright skips in the ALI terminology) in order to prevent avoidance of the tax on distributions and terminations.

Concluding Remarks

Again, I would like to thank the Chairman for calling this hearing. I would also encourage the Committee to take action on this issue promptly in the next Congress, with a view toward enacting a new GST tax at the earliest opportunity. Of course, Treasury would be glad to assist the Committee in whatever way possible to fashion a simple, fair and effective tax on generation-skipping transfers.

This concludes my prepared statement. I would be happy to answer your questions.

Appendix A

To impose multiple GST taxes on successive generation skips, the Treasury Department Discussion Draft would be amended as follows:

(1) Section 2611(b) would be amended by deleting paragraph (2) thereof and renumbering paragraph (3) as paragraph (2);

(2) A new section 2653 would be added, to read as follows:

"SEC. 2653. TAXATION OF MULTIPLE SKIPS.

"(a) General Rule.--For purposes of this chapter, if--

"(1) there is a generation-skipping transfer of any property, and

"(2) immediately after such transfer such property is held in trust,

for purposes of applying this chapter to subsequent transfers from such trust, the trust will be treated as if the transferor of such property were assigned to the 1st generation below that of the individual who was the transferor immediately before the transfer.

"(b) Trust Retains Inclusion Ratio.--

"(1) In general.--Except as provided in paragraph (2), the provisions of subsection (a) shall not affect the inclusion ratio determined with respect to any trust.

"(2) Special rule for pour-over trust.--

"(A) In general.--If the generation-skipping transfer referred to in subsection (a) involves the transfer of property from 1 trust to another trust (hereinafter in this paragraph referred to as the 'pour-over trust'), the inclusion ratio for the pour-over trust shall be determined by treating the nontax portion of such distribution as if it were a part of a GST exemption allocated to such trust.

"(B) Nontax portion.--For purposes of subparagraph (A), the nontax portion of any distribution is the amount of such distribution multiplied by the applicable fraction which applies to such distribution.

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DEPARTMENT OF THE TREASURY

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STATEMENT OF
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ACTING TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
COMMITTEE ON WAYS AND MEANS

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to present the views of the Treasury Department on the following bills: H.R. 700, relating to the deduction of travel and transportation expenses of construction workers; H.R. 907, which would expand the exclusion for employer-provided meals to cover meals provided off the premises of the employer; H.R. 1343, relating to the deduction for bad debts by stock savings banks; H.R. 1773, which would exempt from unrelated business income tax the income from the sale or exchange of membership lists; H.R. 2129, relating to the allocation of property taxes among tenant-stockholders in cooperative housing corporations; H.R. 2686 relating to the taxation of business development companies; H.R. 3388, which would make section 252 of the Economic Recovery Tax Act of 1981 applicable to certain transactions that occurred in 1973; H.R. 3284, and H.R. 3528, relating to the amortization of bus and freight forwarder operating authorities; H.R. 4167, which would exempt from unrelated business income the income received by schools, pension trusts and IRAs from oil and gas limited partnership investments; H.R. 4507, which would permit section 501(d) organizations to pass-through the investment tax credit to its members; H.R. 4779, relating to the application of the windfall profit tax to certain exchanges of crude oil for residual fuel oil; H.R. 5022, which would deny percentage depletion with respect to oil and gas lease bonuses and advance royalties; and H.R. 5199, relating to the application of section 278(b) to inedible fruits and nuts.

I will discuss each bill in turn.

R-2873

H.R. 700

Deduction for Travel and Transportation Expenses of Construction Workers

Current Law

In general, a taxpayer is allowed a deduction for ordinary and necessary expenses paid or incurred in carrying on a trade or business. No deduction is allowed for personal, living, or family expenses, including the cost of commuting to and from work. However, it is sometimes difficult to delineate between personal transportation and travel expenses which are non-deductible and those which are properly deductible as business expenses.

In 1953, the Service ruled that daily transportation costs incurred by a taxpayer in traveling from the metropolitan area in which he regularly worked to a temporary job site outside that metropolitan area were deductible. In 1971, however, the Tax Court held that daily transportation costs were non-deductible regardless of the temporary nature of the job or the distance traveled. The IRS formally adopted the Tax Court's rationale in 1976. Subsequently, Congress imposed a moratorium on the implementation of the Service's position and required that expenses paid or incurred in connection with travel between a taxpayer's residence and place of work for the period beginning after 1976 and before June 1, 1981, be governed by the rules in effect prior to 1976.

Current law also provides that taxpayers who are away from home may deduct business expenses, including the cost of transportation, incurred in connection with temporary employment away from the taxpayer's regular or principal place of employment. Whether employment is temporary, as opposed to permanent or indefinite, depends upon an analysis of the facts and circumstances surrounding the employment arrangement. The Internal Revenue Service recently issued a ruling, Rev. Rul. 83-82, 1983-22 I.R.B. 5, which provides guidelines to determine whether an employment arrangement is temporary.

Description of H.R. 700

H.R. 700 would amend Code section 162 to provide a special rule for the travel and transportation expenses incurred by construction workers. This rule defines as a "temporary" job site any job at a site located more than 30 miles from the construction worker's principal place of residence for the first

two years that the worker is employed at that job site. For periods of employment after the initial two-year period, whether or not the job site is temporary would be determined based on an examination of all the facts and circumstances, except that the following would not be taken into account:

(a) the fact that the worker has already been employed at the job site for the past two years;

(b) the fact that the worker's employment at the job site is of indefinite duration.

In addition, the IRS could not deem, by rule or regulation, that any length of time either automatically or presumptively makes the job other than temporary. For purposes of this bill, the term "construction worker" means any individual employed, whether as a skilled, semiskilled, or unskilled laborer, in the building or construction industry, but does not include clerical or management employees. The proposed amendment would be effective upon enactment.

Discussion

The apparent intention of the bill is to permit construction workers to deduct all travel and transportation expenses incurred in connection with employment at a job site located more than 30 miles from the worker's principal place of business, at least for the first two years the worker is employed at that site. Treasury shares this Subcommittee's concern about the fair treatment of workers who must travel many miles from their residence to temporary jobs. The difficulties inherent in distinguishing "temporary" assignments, as is required by current law, from "indefinite" assignments has lead to significant uncertainty in this area. However, Treasury must oppose H.R. 700.

We oppose the adoption of a special travel deduction rule governing the tax liability of a class of taxpayers defined by occupation without regard to similarly situated taxpayers who have different occupations. Moreover, any rule adopted to provide a deduction for workers with a constantly shifting workplace who must travel long distances to reach their job sites should be designed to remedy the uncertainty of current law. Under this bill, the IRS would be precluded from establishing a bright line for defining temporary employment. We believe such a rule is desirable to provide guidance to taxpayers and those who must administer these provisions of the tax law.

In addition, there is an active regulations project which addresses the subject of travel expenses incurred in connection with temporary jobs. We hope that the project will be completed and that new regulations will be promulgated in proposed form in the near future. Because this area is now under intensive study and because we intend to propose rules of general application in this area, we must oppose the bill.

H.R. 907

Expansion of Exclusion for Employer-Provided Meals to Cover Certain Off-Premise Meals

Current Law

In general, current law under section 119 provides that the value of meals furnished to an employee by or on behalf of his employer is excludable from the employee's gross income if the meals are furnished on the business premises of the employer and are furnished for the convenience of the employer. The long-standing interpretation of section 119 requires that the meals be furnished at the place of employment of the employee for a substantial noncompensatory business reason of the employer, such as to have the employee available for emergency call during his meal period. The determination of whether a meal is furnished for the convenience of the employer is made by examining the relevant facts and circumstances.

Under the Tax Reform Act of 1984, the value of meals provided to an employee at an eating facility operated by an employer for employees is treated as a de minimus fringe benefit and excluded from income if (1) the facility is located on or near the business premises of the employer, (2) revenue derived from the facility normally equals or exceeds the direct operating costs of the facility, and (3) certain discrimination requirements are met in the case of officers, owners, or highly compensated employees.

Description of H.R. 907

H.R. 907 would amend Code section 119 to extend the scope of the meals exclusion to cases where meals are furnished off the business premises of the employer where:

(a) the employer is unable to justify economically the operation of on-premises eating facilities;

(b) the employer does not provide on-premises eating facilities at the employee's place of employment;

(c) meals are provided in kind, not in cash; and

(d) meals are provided within a time frame consistent with the employer's established meal schedule.

Discussion

Treasury opposes H.R. 907. As a general matter, the value of property (including meals) received in connection with the performance of services should be treated as income for purposes of the income tax provisions and as wages for purposes of the withholding and employment tax provisions of the Code. Section 119 was enacted as part of the 1954 recodification of the Internal Revenue Code to clarify the tax status of meals and lodging furnished to an employee by his employer in circumstances where the benefits provided were necessary to the functioning of the employer's business. In enacting section 119, Congress overruled prior Service regulations which only permitted an exclusion for meals or lodging furnished to employees for the convenience of the employee if it was evident from the circumstances that the meals or lodging did not represent compensation. Congress rejected this test and instead provided that the basic test for exclusion is whether the meals or lodging are furnished primarily for the convenience of the employer. Consistent with this interpretation, Congress also added an additional restriction -- that meals subject to the exclusion must be taken on the business premises of the employer. Thus, the conditions for exclusion under section 119 represent an attempt to establish objective standards by which the exclusion is limited to those situations where meals are provided primarily to enable the employee to perform his job. The requirement that meals be furnished on the employer's premises is an essential and logical part of this test.

The amendments proposed by H.R. 907 would change section 119 from an exclusion based on business necessity into a statutory fringe benefit generally available to a substantially enlarged number of taxpayers. Such an expansion is not consistent with the original purpose of section 119 which was to permit a statutory exclusion where business requirements demanded that an employee take his meals on the business premises. Moreover, Congress has recently addressed the taxation of certain employer-provided meals as fringe benefits in the Tax Reform Act of 1984. This new provision does not amend section 119. Instead, it provides a new section 132 of the Code which excludes from employee income certain fringe benefits, including, in certain circumstances, the excess of the value of meals provided to an employee by an employer at an employer-operated eating facility over the fee charged for the meal. Because Congress has

just reviewed the taxation of fringe benefits in a comprehensive way, we do not think this bill represents an appropriate time to re-open the subject of fringe benefits taxation.

We also are opposed to introducing into section 119 a rule requiring analysis of the employer's ability to provide on-premises eating facilities. Requiring the Service to determine in each case whether or not the employer can economically justify the operation of an on-premises cafeteria would, we believe, create a standard that cannot be effectively administered.

Finally, H.R. 907 would represent a significant erosion of the tax base. Revenue estimates show that enactment of this legislation would result in a $320 million annual revenue loss in the fifth year after enactment.

H.R. 1343

Bad Debt Reserves of Stock Savings Banks

Current Law

A thrift institution may compute the addition to its bad debt reserve using the percentage of eligible loans method, the experience method or the percentage of taxable income method. The percentage of taxable income method is available to a thrift institution to compute the addition to its bad debt reserve for qualifying real property loans if a minimum percentage of its assets consist of certain eligible investments (primarily residential mortgages). The more liberal bad debt deduction available to thrift institutions under the percentage of taxable income method is essentially a subsidy designed to encourage investment in residential mortgages.

To claim the maximum deduction (which is generally equal to 40 percent of taxable income), a savings and loan association or stock savings bank must hold at least 82 percent of its total assets in eligible investments. The deductible percentage of taxable income is reduced if fewer than 82 percent of total assets are eligible investments.

In contrast, a mutual savings bank must hold only 72 percent of its assets in eligible investments to take advantage of the maximum deduction. The allowable deduction for a mutual savings bank is also reduced if the percentage of eligible investments declines below 72 percent.

Description of H.R. 1343

H.R. 1343 would equate the bad debt reserve provisions applicable to a stock savings bank with those applicable to a mutual savings bank and allow a stock savings bank to claim the maximum bad debt deduction using the percentage of taxable income method if at least 72 percent of its assets consist of eligible investments.

Discussion

Prior to the the Economic Recovery Tax Act of 1981 (ERTA), Federal and state legislation had been enacted permitting mutual savings banks to convert to stock ownership to allow such savings banks to raise new capital and achieve other financial objectives. Before the enactment of ERTA, though, stock savings banks were not entitled to claim additions to bad debt reserves using the percentage of taxable income method. ERTA allowed a mutual savings bank that converted to a stock savings bank to compute its bad debt deduction under the percentage of taxable income method under the same rules applicable to stock savings and loan associations.

ERTA provided that a stock savings bank is eligible for the maximum deduction under the percentage of taxable income method only if it invests 82 percent of its assets in eligible investments. This requirement is in contrast to the more liberal 72 percent investment standard applicable to mutual savings banks. The legislative history to ERTA indicates that the rationale for this distinction is that a stock savings bank is more like a stock savings and loan association than a mutual savings bank.

Congress created the distinction between savings banks and savings and loan associations under Section 593 in 1962 to recognize historical differences in the investment powers of savings banks and savings and loan associations. Savings banks traditionally enjoyed broader investment powers and were permitted to make more non-mortagage investments than savings and loan associations. Deregulation of thrift institutions in general, however, has expanded the investment powers of all types of thrift institutions. As a result, thrifts have become increasingly similar to commercial banks.

Increasing deregulation of thrift institutions and the resulting competition among all sectors of the financial industry suggests that the policy rationale for the special bad debt deduction rules for thrifts should be reexamined. Until this reexamination occurs, Treasury cannot support incremental changes

to section 593, such as H.R. 1343. Decisions in this area should be based on a comprehensive review of all of the pertinent tax and economic policy issues affecting the thrift industry.

H.R. 1773

Exemption from Unrelated Business Income Tax for Sales, Rentals, or Exchanges of Names from Donor and Membership Lists

Current Law

The Internal Revenue Code contains numerous special provisions designed to promote certain activities ("exempt activities") of nonprofit organizations that provide substantial public benefit. These special provisions include (i) deductions from income for amounts contributed to or for the use of specified organizations that conduct the exempt activities and (ii) exemption from income taxation for organizations conducting such activities. These two benefits serve distinct purposes. The deduction allowed for contributions to the specified organizations is intended to assist the organizations in obtaining the financial support necessary to conduct the exempt activities. The income tax exemption for the organization is intended to permit the organization to conduct exempt activities without incurring any Federal income tax liability.

Prior to 1950, the tax exemption of organizations conducting exempt activities extended to all income received, whether from the conduct of exempt or nonexempt activities. Furthermore, prior to 1950, it was unclear whether a "feeder" organization that carried on a trade or business for profit as its primary activity and paid all its income to a tax-exempt organization could qualify for exempt status. In 1950, Congress enacted legislation that imposed a tax on income received by exempt organizations from unrelated business activities and denied exempt status to "feeder" organizations. Since the 1950 legislation, it has been clear that the receipt of income is not entitled to exemption from taxation solely because the income will be used for exempt purposes. Rather, exemption of income from taxation depends upon the nature of the activity that produces the income. For example, income generated by activities that further exempt purposes and income generated by certain forms of investment activity traditionally engaged in by tax-exempt organizations are not subject to taxation. The tax on unrelated business income, however, distinguishes income generated by commercial activities from income earned through exempt purpose activities and traditional forms of investment. The primary purpose for taxing income from commercial activities of tax-exempt organizations and income of "feeder" organizations is to

equalize the tax treatment of commercial, nonexempt activities, regardless of the type of entity that conducts the activity. This prevents tax-exempt organizations from gaining unfair advantage over their taxable competitors by trading on their tax exemptions.

Description of H.R. 1773

H. R. 1773 would exempt from the unrelated business income tax income from the sale, exchange, or rental by certain tax-exempt organizations of names of donors to, or members of, the organizations. The bill accomplishes this by prohibiting the treatment of such activities as a trade or business for purposes of defining an unrelated trade or business. The bill applies only to sales, exchanges, or rentals by organizations, contributions to which are deductible as charitable contributions.

Discussion

The activity of selling or renting names from mailing lists is a common commercial practice engaged in by many taxable entities as well as by tax-exempt organizations. While much of the income earned by tax-exempt organizations from sales or rentals of their donor or membership lists may be received from other tax-exempt organizations, these transactions are conducted in a commercial manner similar to that by which taxable entities sell or rent mailing lists. Sales and rentals of donor, membership, and mailing lists also occur between taxable and tax-exempt organizations. We consider it appropriate for income from such a common commercial activity to be subject to taxation. In 1981, the Court of Claims held that income received by the Disable American Veterans from the sale of its mailing lists is unrelated business income.

When an organization exchanges its donor or membership lists with another organization, it is in effect selling or receiving rent for its list and purchasing or paying rent for the other organization's list. The fact that payment is made in kind rather than in cash does not change the essentially commercial nature of the sale or rental activity.

The argument made in support of exempting income from sales, rentals, or exchanges of donor lists from the unrelated business income tax is that such sales, rentals, or exchanges are necessary to maintain the lists. We recognize that, because of attrition, an organization must regularly add new names to maintain its donor lists. Nevertheless, the sale or rental of the donor lisit to others does not provide the organization with such new names. Of course, the sale or rental becomes associated with the acquisition of new names where the income from the commercial activity is used to buy or rent lists of other organizations or where the sale or rental is accomplished through an exchange of lists. As discussed

above, however, the policy is well established that it is the nature of the activity that produces the income, not the use to which the income is dedicated, that determines whether exemption should be granted. Treasury opposes exemption from the unrelated business income tax of income from the sale, rental, or exchange of donor or mailing lists because such an exemption would be directly contrary to this established principle. We do not believe the tax law should be changed to give tax-exempt organizations a competitive advantage in the business of selling, renting, or exchanging donor or membership lists.

H.R. 2129

Allocation of Property Taxes among Tenant-Stockholders in Cooperative Housing Corporations

Current Law

The "owner" of a cooperative housing unit (generally an apartment in a building containing several apartments) actually owns shares of stock in a corporation which legally owns or leases the real estate including the unit. In addition, the owner enters into an agreement with the corporation entitling him to occupy the unit and providing for payment of rent (usually called a "maintenance" payment). The maintenance payments, in part, cover the corporation's payments of mortgage interest and real property taxes with respect to the property.

Since the owner of the unit (the "tenant-stockholder" of the cooperative housing corporation owning the property) would be entitled to deduct payments of taxes and interest with respect to his unit if he owned the unit directly, section 216 allows the tenant-stockholder to deduct his "proportionate share" of: (1) the real property taxes allowable as a deduction to the corporation under section 164 which are paid or incurred by the corporation on the houses or apartment building and on the land on which such houses or building are situated, and (2) the interest allowable as a deduction to the corporation under section 163 which is paid or incurred by the corporation on its indebtedness contracted in connection with the acquisition, construction, alteration, rehabilitation, or maintenance of the houses or apartment building, or in the acquisition of the land on which the houses or apartment building are situated.

Under section 216(b)(3), the term "proportionate share" means the proportion which the tenant-stockholder's stock in the cooperative housing corporation bears to the corporation's total outstanding stock. This rule controls a tenant-stockholder's

allowable deduction for real property taxes even if state law (in conjunction with the corporation's by-laws) require him to pay a greater or lesser share of the corporation's real property tax liability.

However, under the laws of some jurisdictions, a tenant-stockholder's share of the corporation's real property tax liability is determined, not by reference to stockholdings, but by reference to the value of his unit. In particular, in California, under Proposition 13, if shares in a cooperative housing corporation that are associated with an apartment are sold or exchanged, the apartment is appraised for real estate tax purposes at its value at the time of the sale or exchange (usually resulting in an increased assessment with respect to the apartment). In such cases, the new purchaser generally is required to pay higher maintenance fees reflecting the increase in the corporation's real property tax payments that is attributable to the reappraisal of his apartment.

Notwithstanding the manner in which a cooperative housing corporation's real property tax liability is actually borne by its stockholders in such jurisdictions, section 216 currently does not permit new purchasers, who may make larger (or smaller) maintenance payments per share of stock than other tenant-stockholders, to deduct a proportionately greater (or lesser) share of the corporation's real property taxes compared to other tenant-stockholders whose apartments have not been reassessed. Rather, each tenant-stockholder is required to deduct his "proportionate share" (measured by stockholdings) of the increased real property taxes, even though his maintenance fee may not reflect the increase.

Description of H.R. 2129

H.R. 2129 would amend section 216(b)(3) to provide that, if the laws or ordinances of any State (or political subdivision thereof) require an allocation of taxes based on separate appraisals of some or all of the units owned by a cooperative housing corporation, the term proportionate share (with respect to such taxes) shall mean the amount allocated to those individual units pursuant to such laws or ordinances.

Under this amendment, a purchaser of an appreciated (or depreciated) apartment, who is required to pay maintenance fees proportionately higher (or lower) than his stockholdings to reflect the individual appraisal of his apartment, would be allowed a deduction for a share of the corporation's real property tax liability which takes into account the share of such liability that he actually bears.

Discussion

The Treasury Department supports H.R. 2129, with suggestions for minor technical changes.

Section 216(b)(3) currently does not take into account the possibility that a tenant-stockholder's actual share of the cooperative housing corporation's real property tax liability may differ from the proportion which his stock in the corporation bears to the corporation's total outstanding stock. Accordingly, where state or local law (together with the corporation's by-laws) requires that units be apppraised separately, with the result that the tenant-stockholder with respect to a separately appraised unit bears the cost of real property taxes actually attributable to the unit, the allocation of allowable real property tax deductions does not reflect economic reality. H.R. 2129 would ensure that section 216(b)(3) reflects the actual tax burden borne by the cooperative housing corporation's shareholders.

While we support H.R. 2129, we believe that certain minor changes should be made to clarify its meaning. Specifically, we would: (1) replace the term "taxes" with the term "real property taxes", and (2) clarify that, in the case of a housing cooperative, some but not all of the units of which have been separately appraised, the term "proportionate share" with respect to units which have not been separately appraised must take into account amounts allocated to units which have been separately appraised.

H.R. 2686

Tax Treatment of Business Development Companies

Current Law

The Code permits certain corporations that qualify as "regulated investment companies" to deduct dividends paid to their shareholders and thereby avoid the double taxation that would otherwise be imposed on distributed corporate earnings. In order to qualify as a regulated investment company (or "RIC") for federal income tax purposes, a domestic corporation must meet several requirements. The corporation must derive 90 percent of its gross income from dividends, interest, and the sale of stocks and securities and must meet certain investment diversification requirements. In addition, section 851(a) of the Code requires (i) that the corporation be registered with the Securities and Exchange Commission at all times during the taxable year as a

management company or as a unit investment trust under the Investment Company Act of 1940, or (ii) if the corporation is a common trust fund or similar fund, that it be excluded from the definition of "common trust fund" under the Code and from the definition of "investment company" under the Investment Company Act of 1940.

The Small Business Incentive Act of 1980 (P.L. 96-477), amended the Investment Company Act to permit a closed-end company that provides capital and significant managerial assistance to small businesses to elect, subject to certain requirements, to register as a "business development company." A company is eligible to register as a business development company only if it would otherwise be required to register as a management company under the Investment Company Act. An eligible company that elects to be treated as and registers as a business development company is no longer required to register under the Investment Company Act.

Description of H.R. 2686

H.R. 2686 would amend present law to provide that any domestic corporation that registers as a business development company under the Investment Company Act of 1940, as amended, would be eligible for the conduit tax treatment applicable to RICs, subject to the requirements generally applicable in determining whether an investment company qualifies as a RIC. H.R. 2686 would apply to taxable years beginning on or after October 21, 1980 (the effective date of the 1980 amendments to the Investment Company Act).

Discussion

We support H.R. 2686 because it will remove federal income tax treatment as a factor in the determination by an otherwise eligible company of whether it will elect to be regulated under the securities laws as a business development company rather than as an investment company. The alternative form of regulation available under the Investment Company Act for business development companies was specifically designed for such companies in lieu of registration under the Investment Company Act and imposes less burdensome regulatory requirements than the requirements otherwise applicable to corporations required to register as investment companies. For example, a business development company is subject to less stringent restrictions regarding its capital structure and its ability to engage in transactions with affiliated persons. Thus, a corporation eligible to register as a business development company would generally find such registration to be preferable to registration as an investment company. Because the Code definition of a RIC

has not been changed to reflect this new type of registration, however, a corporation can obtain the benefits of registration as a business development company only if it forgoes the pass-through treatment available to RICs under the Code. H.R. 2686 would remove this impediment.

We reiterate that a company can qualify as a business development company for securities law purposes only if it otherwise would fall within the definition of an investment company. Hence, H.R. 2686 would not expand the class of corporations that can elect to be treated as RICs; rather, its effect would be that a closed-end management company, which is already eligible to be treated as a RIC for federal income tax purposes, does not lose that eligibility by electing to be regulated as a business development company.

Arguably, by providing "significant managerial assistance" to its portfolio companies, a business development company may engage in a higher level of activity than the passive investment companies for which Subchapter M was drafted. We do not believe, however, that this concern should necessarily preclude business development companies from obtaining the same tax treatment as other investment companies engaged in a similar level of activity. A better approach would be to consider whether any company engaging in a significant degree of activity should be eligible for taxation under Subchapter M.

Although we support H.R. 2686, we would recommend some changes in the bill as introduced. First, since registration as a business development company is in lieu of registration as a management company, we believe that the provisions of Parts I and III of Subchapter M will apply to a corporation meeting the definition of a business development company as if it were registered as a management company. Such a change would clarify that a business development company can qualify as a RIC only if it is registered throughout its taxable year as a business development company or as a management company. This change would also make it clear that sectin 851(e) could apply to a business development company. Finally, such a change would help clarify that a business development company electing conduit tax treatment under Subchapter M should to be treated as a RIC for all purposes under the Internal Revenue Code, and not just for purposes of Subchapter M.

Second, the exception contained in H.R. 2686 for business development companies that are personal holding companies or that would be personal holding companies but for the application of section 542(c)(8) should be deleted. By making such companies ineligible to become RICs, H.R. 2686 is consistent with section 851(a) as it existed prior to this year. The Tax Reform Act of

1984, however, amended section 851(a) by deleting the prohibition against the election of RIC status by a personal holding company (although a RIC that is a personal holding company is subject to tax at the maximum corporate rate on its undistributed income). Since a personal holding company that is registered under the Investment Company Act as a management company may now elect to be treated as a RIC if it meets all other requirements, we see no reason why a personal holding company (or a company that would be a personal holding company but for section 542(c)(8)) that elects to be regulated as a business development company should forgo the opportunity to be taxed as a RIC, as long as its undistributed income is subject to tax at the highest corporate rate.

Finally, if enacted H.R. 2686 should be prospective only in its application. Since this legislation is designed to remove a tax disincentive to registration as a business development company, there is no reason to extend its benefits to companies that have previously decided to forgo RIC status by registering as business development companies. Accordingly, we would recommend that this legislation apply only to taxable years ending after the date of enactment.

H.R. 3388

Application of Section 252 of ERTA to Certain Transfers in 1973

Current Law

Prior to the ERTA any taxpayer who received stock subject to section 16(b) of The Securities Exchange Act of 1934, (under which an "insider's" profit may be recovered by a corporation if the stock is sold within 6 months of receipt), was required to treat the value of the stock (less any amount paid) as compensation when received. Section 252 of ERTA revised this rule, on the theory that restrictions on transferability which are mandated by Federal securities laws or accounting principles should be taken into account in determining the time at which the value of the stock should be included in income. After ERTA, any taxpayer who receives stock subject either to section 16(b) or to the "pooling-of-interest" accounting rules will be treated as being subject to a substantial risk of forfeiture within the meaning of Code section 83 for the 6-month period during which the mandated restrictions apply. Thus, the employee will include in income, and the employer may deduct at the time the restriction lapses, the difference between the value of the stock at that time and the amount paid for the stock (if any). This provision applies to transfers after December 31, 1981.

Description of H.R. 3388

H.R. 3388 addresses the effective date of this section and would apply the above-described change in the restricted stock transfer rule prior to its effective date in the following narrowly defined set of circumstances:

- the stock was acquired in November or December of 1973 under stock options granted in November or December of 1971;
- the corporation granting the options was acquired in a tax-free reorganization occurring in December 1973;
- the fair market value of the stock dropped by 50 percent during the holding period before sale;
- substantially all the stock was sold in 1975 or 1976.

If these conditions are met, the taxpayer may elect to apply the provisions of section 252(a) and (b) of ERTA to the extent that the credits or refunds produced thereby do not exceed $100,000 per taxpayer (disregarding interest).

H.R. 3388 is in substance identical to H.R. 4577, introduced in 1982. The narrowly defined set of circumstances described in these bills is meant to describe particular beneficiaries.

Discussion

Treasury opposes H.R. 3388 for a number of reasons. First, because the bill is intended to grant special tax relief to a few individuals, it is inequitable and is the antithesis of sound tax policy. The tax laws cannot be administered fairly if special exceptions are made for favored individuals.

Second, Treasury has consistently opposed any retroactive application of the ERTA change in the restricted property rules. This opposition is consistent with our general opposition to retroactivity even where, as here, the substantive change in the law is sound.

Third, retroactivity is particularly inappropriate in this case because the bill would permit taxpayers to elect to open years closed by the statute of limitations. The purpose of a statute of limitations is to prevent both the Internal Revenue Service and taxpayers from reopening issues after a certain period of time regardless of how meritorious the position may be. This legislation would clearly violate that rule.

H.R. 3528

Deduction for Loss in Value of Freight Forwarder Operating Authorities

H.R. 3284

Deduction for Loss in Value of Bus Operating Authorities

Current Law

On July 1, 1980, the Motor Carrier Act of 1980 was enacted to reduce regulation of the interstate motor carrier industry. The Act made it easier for motor carriers to obtain operating authorities from the Interstate Commerce Commission. Although the legislative deregulation of the motor carrier industry applied only to motor contract carriers and motor common carriers, and not to freight forwarders, the ICC, on its own initiative, and concurrently with the enactment of the Motor Carrier Act, substantially reduced entry restrictions for freight forwarders as well. As a result of this legislative and administrative easing of regulation, the value of previously granted operating authorities held by motor carriers and freight forwarders has declined.

Similarly, the Bus Regulatory Reform Act of 1982 (enacted on November 19, 1982), in deregulating the intercity bus industry, substantially eased entry into the intercity bus business. As a result of deregulation, the value of previously granted bus operating authorities has declined.

Under section 165(a) of the Code, a deduction is allowed for any loss incurred in a trade or business which is evidenced during the taxable year by a closed and completed transaction and fixed by an identifiable event. The amount of any deduction allowed may not exceed the adjusted basis of the property involved. No deduction is allowed, however, for a mere decline in value of property. These rules have been applied by the courts to deny deductions for the diminution in value of an operating permit or license in circumstances closely comparable to those presented by the reduced regulation of interstate freight forwarders and intercity bus operators.

After the interstate motor carrier industry was legislatively deregulated, Congress enacted section 266 of the Economic Recovery Tax Act of 1981, as a special relief provision for taxpayers who held motor carrier operating rights at that

time. Under section 266, a deduction is allowed ratably over a 60-month period for taxpayers who held one or more motor carrier operating authorities on July 1, 1980. The term "motor carrier operating authority" means a "certificate or permit held by a motor common or contract carrier of property and issued pursuant to subchapter II of chapter 109 of title 49 of the United States Code." Section 266 provides no relief for taxpayers which held operating authorities as freight forwarders.

Description of H.R. 3528

H.R. 3528 would amend section 266 of the Economic Recovery Tax Act of 1981 to define the term "motor carrier operating authority" to include a "certificate or permit held by a motor common or contract carrier of property or a freight forwarder." Under this amendment, taxpayers holding operating authorities as freight forwarders on July 1, 1980 would be entitled to deduct ratably over a 60-month period (commencing with the month of July 1980, or, at the election of the taxpayer, with the first month of the taxpayer's first taxable year beginning after July 1, 1980) the aggregate adjusted basis of of all motor carrier operating authorities held by the taxpayer on such date, including those held as a freight forwarder.

Description of H.R. 3284

Under H.R. 3284, a deduction would be allowed ratably over a 60-month period (generally beginning with the later of the month of November 1982 or, if later, at the election of the taxpayer, the first month of the taxpayer's first taxable year beginning after November 19, 1982) for taxpayers holding one or more bus operating authorities on November 19, 1982. The amount of the deduction would be the aggregate adjusted basis of all bus operating authorities held by the taxpayer on that date or acquired thereafter under a contract that was binding on that date, subject to a per-taxpayer limitation of $5 million. The bill also provides authority for the Treasury Department to prescribe regulations under which, for purposes of this deduction, if a controlling stock interest in a corporation holding eligible bus operating authorities was purchased by a person or group of noncorporate persons within a 12-month period, the corporation would be able to elect to allocate to the operating authorities a ratable portion of the purchaser's basis in the corporation's stock. This election would be available only if the stock was acquired on or before November 19, 1982, or pursuant to a binding contract in effect on that date.

For purposes of the $5 million limitation, a corporation which is a member of an affiliated group would be treated as a separate taxpayer.

Discussion

H.R. 3528 would expand the scope of section 266 of the Economic Recovery Tax Act of 1981, which allowed taxpayers who held operating authorities as motor carriers of property to amortize the adjusted basis of those operating authorities over a 60-month period. H.R. 3284 would enact substantially similar rules for taxpayers who held bus operating authorities prior to deregulation of the intercity bus industry.

Treasury opposed the enactment of section 266 on the ground that even though the deregulation of the trucking industry caused a decline in the value of the operating rights of motor carriers, those rights continue to have value, since the ICC continues to require a taxpayer to secure such rights in order to conduct a trucking business. We also pointed out that if it was decided that special tax relief should be given to affected motor carrier operators, the proper amount of the loss deduction should be the excess of the taxpayer's basis in the operating rights over the post-deregulation value of those rights, not the full amount of the taxpayer's basis in the operating rights.

I would like to emphasize that the deregulation of motor carriers (including freight forwarders) and intercity bus operators is not different from any other deregulation that causes a diminution in value of a license or operating right. Other industries, most notably the airline industry, have been deregulated without the grant of any special tax relief for this reduction in value.

Moreover, our tax system taxes gains and permits a deduction for losses only when those gains or losses are recognized by an identifiable event; in the case of gains or losses attributable to property, this typically occurs upon the sale or exchange of the property. Permitting a current deduction for a decline in the value of assets prior to disposition while not taxing unrealized gains is contrary to our present system of taxation and sets an unfortunate precedent. While we acknowledge that no distinctions can be made between the deregulation of motor carriers, freight forwarders, and bus operators, if H.R. 3528 and H.R. 3284 are enacted the door will be open for all other deregulated industries to seek similar relief. Therefore, we must oppose H.R. 3528 and H.R. 3284 on the same ground as that on which we opposed section 266 of the Economic Recovery Tax Act of 1981.

Additionally, in the case of H.R. 3284, we are concerned that treating members of an affiliated group of corporations as separate taxpayers for purposes of the $5 million per-taxpayer limitation would create an unwarranted distinction between a

parent corporation that purchased (before November 19, 1982) a controlling interest in a single subsidiary holding multiple bus operating authorities and a parent corporation that purchased (before November 19, 1982) multiple subsidiaries each of which held a single bus operating authority. Similarly, an unwarranted distinction would exist between a corporation which expended funds to acquire bus operating authorities directly, and one which acquired operating authorities indirectly by purchasing the stock of corporations already holding operating authorities. In both cases, more favorable treatment would be given to the affiliated group more members of which held operating authorities. Accordingly, we oppose the provision of H.R. 3284 that provides that members of an affiliated group would be treated as separate taxpayer for purposes of the $5 million per-taxpayer limitation.

H.R. 4167

Exemption from Tax on Unrelated Business Income from Oil and Gas Investments by Schools, Pension Trusts, and Individual Retirement Accounts

Current Law

As discussed earlier, Congress long ago determined that a tax should be imposed on income earned by exempt organizations from business activities that are unrelated to their exempt purposes. The primary purpose of the tax is to prevent exempt organizations engaged in commercial activities from having a competitive advantage over taxable entities. Exemptions from the tax on unrelated business income are provided for rents, royalties, dividends, and interest. The legislative history shows that these particular types of income were exempted because they are "passive" in character, are unlikely to result in serious competition for taxable businesses having similar income, and had long been recognized as a proper source of revenue for educational and charitable organizations.

The passive income exceptions generally do not apply, however, if the income is derived from property that is acquired or improved with borrowed funds. In general, the rules relating to debt-financed property provide that a share of any income from debt-financed property, proportional to the ratio of debt on the property to the adjusted basis of the property, is treated as income from an unrelated trade or business. An exception to the debt-financed property rules provides that income from debt-financed real estate investments of qualified pension trusts and certain educational institutions are not subject to tax, provided certain conditions are satisfied.

The original rules relating to debt-financed property were developed in response to abusive sale-leaseback transactions between tax-exempt organizations and taxable owners of active businesses. These transactions typically involved a tax-exempt organization's purchase of an active business, financed primarily by a contingent, nonrecourse note, followed by a lease of the assets of the business to the seller. The effect of these transactions was to convert the ordinary income of the business into capital gains for the seller while allowing the tax-exempt organization eventually to acquire property with little or no investment of its own funds. The primary objection to sale-leaseback arrangements involving borrowed funds was that they permitted an organization's tax exemption to benefit the taxable seller, either by conversion of ordinary income to capital gain or by payment of a higher price for the property than a taxable purchaser would pay.

Enactment in 1950 of a tax on income from certain leases was insufficient to prevent abuse because new forms of transactions involving leveraged investments quickly developed. In response to these new transactions, the provision was strengthened in 1969 by subjecting to the unrelated business income tax the income received from all kinds of debt-financed property. This broad revision reflected concern not only with existing sale-leaseback transactions, but with the possibility of other abusive uses of leveraged investments by tax-exempt organizations.

Description of H.R. 4167

H.R. 4167 would provide an exemption from the tax on unrelated business income for income received by qualified pension trusts, individual retirement accounts, and educational organizations from investments as limited partners in partnerships holding working interests in domestic oil and gas wells. This exemption would not apply if the general partner of the limited partnership were related to one or more of the tax-exempt limited partners. In addition, the exemption would not apply to income allocated to a limited partner during a partnership year in which allocations of deductions, losses, credits, and cash distributions were not consistent with allocations of income or gain. Use of multi-tier partnership or other arrangements for the principal purpose of avoiding these limitations on allocations would be prohibited. The limitations would not apply to allocations of depreciation, depletion, or gain or loss with respect to property contributed to a partnership which are made, in accordance with section 704(c)(2), on a nondiscriminatory basis between exempt and nonexempt limited partners.

The bill also would exempt from the debt-financed property rules a pension trust's, IRA's, or educational institution's share

of a limited partnership's income from working interests in domestic oil and gas wells unless--

(1) the acquisition price of the working interest is not a fixed amount determined as of the date of acquisition;

(2) the amount of indebtedness incurred in acquiring, developing or operating the working interest or any other amount payable with respect to such indebtedness, or the time for making any payment of any such amount, is dependent, in whole or in part, upon any revenue, income, or profits derived by or from such limited partnership;

(3) the working interest is at any time after its acquisition leased by the limited partnership to the person who sold it to the limited partnership or to certain persons related to the seller;

(4) the working interest is acquired from, or at any time after the acquisition is leased by the limited partnership to, certain persons related to the pension trust or educational organization; or

(5) the seller of the working interest, certain persons related to the seller, or certain persons related to the pension trust, IRA or educational organization provide the limited partnership, the pension trust, or the educational organization with nonrecourse financing in connection with the purchase of the working interest and such financing is subordinate to any other debt on the property or bears interest at a rate which is significantly lower than the rate otherwise available.

However, the last three of these restrictions would not apply to any acquisition, lease, farmout, or other transfer of working interests to a person related to the general partner, provided the terms of such transfer are consistent with the terms of similar transfers in the geographic area.

Discussion

Treasury opposes H.R. 4167. The exemption provided by H.R. 4167 would apply only to income from working interests in oil and gas wells received by pension trusts, IRAs, and schools. However, the rationale given for granting the exemption is that investment through a limited partnership is "passive" in nature and therefore should not be subject to the unrelated business income tax. This rationale would apply equally to investments in any active business by any tax-exempt organization as long as the investment was made through a limited partnership. Therefore, adoption of this

legislation would lead one to conclude that there should be a repeal of the unrelated business income tax for any investment made through a limited partnership. Such a repeal, however, would be inconsistent with the purpose for which the tax was enacted.

Placing an investment in an active business in a limited partnership does not eliminate the primary problem -- unfair competition -- to which the unrelated business income tax is directed. The competitive advantages available to a business owned by a tax-exempt entity arise from the fact that the tax-exempt owner does not pay tax on the income received from its equity investment in the business. While the degree to which the tax-exempt organization is involved in the active management of the business may affect whether the attention of the managers of the tax-exempt organization is diverted from exempt activities, it is not relevant to the issue of whether the business obtains a competitive advantage because of its tax-exempt ownership.

The exemption from the unrelated business income tax for rents, royalties, dividends, and interest was provided because, in addition to being "passive," investments producing these types of income had long been recognized as proper for educational and charitable organizations and because they did not appear likely to result in serious competition for taxable businesses having similar income. Thus, the "passive" nature of investments made through limited partnerships is not sufficient to justify an exemption from the unrelated business income tax.

Even if the "passive" nature of an investment were sufficient to justify exemption from the unrelated business income tax, limited partners are not necessarily "passive" investors. For example, under the 1976 Uniform Limited Partnership Act, a limited partner is permitted to engage in a number of activities relating to the operation of a business without being considered a general partner. These permitted activities include, among others, consulting with and advising a general partner with respect to the business of the limited partnership and voting on the removal of a general partner. Clearly, limited partners that can consult with and advise a general partner on business matters and can remove the general partner may have substantial active involvement in and control over the business of the limited partnership.

In addition to our objections to providing a competitive advantage to an active business by allowing tax-exempt ownership through a limited partnership, we are concerned that partnership allocations may be used to transfer tax benefits from tax-exempt partners to taxable partners. We do not believe that the limitations on allocations contained in H.R. 4167 are sufficient to prevent such abuse. Rather, these limitations merely elevate the level of sophistication required to attain the desired results.

The allocation provisions of the bill contain certain technical deficiencies. For example, the bill does not require that allocations of basis be consistent with allocations of income or gain. Since the depletion deduction with respect to an oil or gas property and gain or loss on the disposition of such property are computed at the partner level rather than the partnership level, allocation of basis to taxable partners may have the effect of allocating depletion deductions to taxable partners while allocating gain to tax-exempt partners. Similarly, the allocation rules in the bill do not prohibit the allocation of capital gain to the taxable partners and ordinary income to the tax-exempt partners, nor do they prevent distribution schemes under which tax-exempt partners receive property on which there is substantial unrealized gain while taxable partners receive property on which there is little or no unrealized gain.

In addition, the bill fails to preclude potential abuse through the use of partnership "flip-flops." Although the bill attempts to ensure that in each partnership taxable year the tax-exempt partner will be allocated no less a share of partnership loss, deduction, and credit than its share of partnership income and gain, it does not prevent the tax-exempt partner from having a disproportionately large share of all partnership items during partnership taxable years in which net taxable income is expected, and a disproportionately small share of all partnership items during partnership taxable years in which net losses are expected.

We also are concerned that investments by tax-exempt entities in limited partnerships engaged in active business may be used to benefit taxable persons in ways other than by the transfer of tax benefits. Participation in an active business provides numerous opportunities for subtle forms of self-dealing. For example, exploratory drilling conducted by a limited partnership on a tract of land can benefit owners of adjacent land. We see no justification for allowing tax-exempt income to be used to benefit taxable persons in this way.

Finally, even if limited partnership interests in working interests in oil and gas wells were to be exempt from the tax on unrelated business income, we see no justification for exempting debt-financed investments in such property from the debt-financed property rules. As explained earlier, the debt-financed property rules were intended to prevent use of tax exemptions for the benefit of taxable persons. For several reasons, we do not believe the limitations on purchase price and financing provided in H.R. 4167 would prevent the abusive use of exemptions if debt-financed investments in working interests in oil and gas wells were not subject to the tax on unrelated business income.

One possibility for abuse exists because the restrictions on sale-leasebacks in the bill do not apply to sale-leasebacks between a limited partnership and a person related to the general partner. Thus, a tax-exempt organization could enter into a sale-leaseback with a taxable seller if the seller were a general partner and the terms of the sale and lease were consistent with the terms of similar transfers in the geographic area. While we recognize that the requirement that the terms be consistent with those of similar transfers in the geographic area is intended to prevent abuse, such a standard would be difficult and cumbersome, if not impossible, to administer effectively. Another possibility for benefit to a taxable person is that a tax-exempt organization may be willing to pay a higher price for the property than a taxable investor would, particularly since it could obtain nonrecourse financing from the seller. In recognition of the potential abuses that exist with seller financing, the current exception to the debt-financed property rules for real estate acquisitions was amended by the Deficit Reduction Act of 1984 to prohibit all seller financing. Finally, we are concerned that debt-financing would provide additional tax benefits that might be allocated unequally between taxable and nontaxable partners.

For the reasons described above, we oppose H.R. 4167.

H.R. 4507

Allowance of Investment Tax Credit To Members of Section 501(d) Organizations

Current Law

Section 501(d) of the Code provides an exemption from taxation for religious or apostolic associations or corporations if such organizations have a common or community treasury. The exemption is available only if the members of the organizations include in their gross income their entire pro rata shares, whether distributed or not, of the taxable income of the organization. Any amount so included in a member's gross income is treated as a dividend. Typically, these associations or corporations engage in a commercial enterprise, such as farming, for the common benefit of the members.

Prior to the enactment of section 501(d) these organizations did not qualify for tax exemption under the general rules for religious organizations because of the presence of commercial activities and private inurement. The income of the organizations was subject to the corporate income tax and was also subject to the

individual income tax if distributed to members. If the organization's income was not distributed to members, it was subject to the accumulated earnings tax. The legislative history of section 501(d) indicates that the single tier of tax at the member level was intended to provide relief from the accumulated earnings tax.

Section 38(a) of the Code allows an investment tax credit for investment in certain depreciable property ("section 38 property"). The credit generally is ten percent of the taxpayer's qualified investment in section 38 property. The amount of credit allowable for any taxable year with respect to any taxpayer is limited. Any excess of credit over the limit may generally be carried back to the preceding three taxable years and forward to the following fifteen years.

Some or all of the investment tax credit taken by a taxpayer with respect to a particular piece of section 38 property is "recaptured" if such property is disposed of or ceases to be section 38 property in the hands of the taxpayer before the expiration of a specified period. In the year of recapture, the taxpayer's tax is increased by the portion of the credit recaptured. However, such tax is not increased if the credit was not used to reduce the taxpayer's tax in a prior year; in that case, the credit carryforward would be reduced.

Under section 48(a)(4), property used by an exempt organization does not qualify for the investment tax credit unless the property is used in a trade or business that is subject to the unrelated business income tax. Since section 501(d) organizations are not subject to the tax on unrelated business income, the investment tax credit is not allowable with respect to the property acquired by such organizations.

Description of H.R. 4507

For purposes of determining eligibility for the investment tax credit, H.R. 4507 would treat a business engaged in by an eligible section 501(d) organization as an unrelated trade or business. The qualified investment for each taxable year with respect to the business would be apportioned pro rata among the members in the same manner as the taxable income of the organization, and the members would be entitled to claim the investment tax credit with respect to their portion of the qualified investment. In addition, the credit under this amendment would not be allowable to individuals who claimed an investment tax credit without regard to this amendment.

The test for determining whether recapture is applicable would be is applied at the entity level. Thus, recapture would be triggered only if the section 501(d) organization disposed of the property or the property ceased to be section 38 property in the hands of the organization. If recapture is applicable, the organization would be treated as if it had taken the credit which would have been allowed to it had the credit been available. The amount recaptured would not be affected by whether or not the credit was used to reduce tax in a prior year. Once the amount of recapture was determined, the total increase in tax would be allocated among the members in the manner that the organization's taxable income for such year is allocated.

An eligible section 501(d) organization would be an organization that elected to be treated as an organization described in section 501(d) and which either had been in existence for more than five years, or more than half the members of which had been members for more than five years of a section 501(d) organization or of a section 501(c)(3) religious community.

The bill would apply to periods after December 31, 1978, in taxable years ending after such date.

Discussion

The tax treatment of section 501(d) organizations is unique. In some ways, such organizations are treated like partnerships and S corporations. The primary similarity is that the income of a section 501(d) organization is subject to a single tier of tax at the member level. However, in other respects, the treatment of section 501(d) organizations differs significantly from that of partnerships or S corporations. For example, credits are not passed through to the members. Moreover, the income, deductions, gains, and losses of section 501(d) organizations do not retain their character when passed through to the members. Rather, the income is taxed to the members as a corporate dividend. As such, it is not subject to employment taxes. In addition, the section 501(d) rules regarding the allocation of income and loss and regarding the taxability of distributions differ from the rules governing partnerships or S corporations. When compared to the burden imposed on partnerships or S corporations, this unique tax treatment of section 501(d) organization can be beneficial in some cases and detrimental in others.

H.R. 4507 would allow the investment tax credit to pass through to the members of the section 501(d) organization. The argument in support of this proposal is that out of fairness section 501(d) organizations should be able to pass through the investment tax credit to their members as can be done by partnerships and S corporations. This argument on its own is not convincing, since,

as noted, there are numerous differences between partnerships and S corporations, on the one hand, and section 501(d) organizations, on the other. The issue is better phrased as whether giving section 501(d) organizations this additional benefit could provide them a significant advantage over businesses operating in other forms. While there is no empirical evidence available on this question, section 501(d) organization always have the opportunity to operate as Subchapter C corporations, S corporations, or partnerships, but at least those pushing for this amendment have chosen not to do so. Moreover, if H.R. 4507 were to become law, we would anticipate future requests from section 501(d) organizations for legislation granting them more of the advantages of partnerships or S corporations without the additional restrictions. Such extension of pass-through concepts to section 501(d) organizations goes far beyond the purpose of section 501(d). Section 501(d) was a response to a limited problem, the accumulated earnings tax. It was not intended to create a new pass-through entity and we would oppose any efforts to create such an entity. For these reasons, Treasury opposes H.R. 4507.

Even if we favored permitting section 501(d) organizatons to pass through the investment tax credit to their members, we would have serious concerns with the way in which H.R. 4507 attempts to accomplish this objective. Under H.R. 4507, the investment tax credit recapture provisions are applied solely at the entity level. Thus, for example, a member of a section 501(d) organization who had an excess credit as a member of the organization could leave the organization before the expiration of the recapture period and retain an unadjusted credit carryforward. This is in contrast to the basic rule, observed in every other context, that the determination of whether recapture is appropriate is made with respect to the taxpayer who took the credit. The application of this general rule is most clearly illustrated in the context of partnerships or S corporations. Obviously, if either of these entities disposes of section 38 property prematurely, recapture is triggered. In addition, if a partner or an S corporation shareholder disposes of his interest in the entity before the expiration of the recapture period, then there is recapture with respect to that partner or shareholder. The rules are aimed at preventing any taxpayer from taking advantage of the full credit with respect to property held only briefly by that taxpayer.

We understand that most members who leave the section 501(d) organizations leave owning no assets and would not be able to pay a tax created by recapture. However, there is little reason to allow such members to take investment tax credit carryforwards with them. Thus, an appropriate rule for members of section 501(d) organizations might be to apply recapture rules similar to those applicable to partners and S corporation shareholders, but also to

carve out an exception (which would not apply to credit carryforwards) for departing members who leave owning assets of relatively little value.

Finally, certain technical problems associated with H.R. 4507 would need to be addressed. One such problem arises with respect to qualified progress expenditures (generally, amounts paid for the construction of an asset prior to completion). As drafted, the bill would allow one member to claim the investment tax credit with respect to qualified progress expenditures, leave the organization without recapture, and have the other members of the organization claim the credit for the same amount after construction was complete. This double benefit is expressly prohibited in all other contexts. In addition, it may be necessary to clarify the application of the at-risk rules to section 501(d) organizations, and to develop rules -- similar to those applicable to partnerships and S corporations -- restricting the availability of the investment tax credit with respect to property leased to other entities by section 501(d) organizations.

H.R. 4779

Exemption From the Windfall Profit Tax to Certain Exchanges of Crude Oil for Residual Fuel Oil

Current Law

Under present law, the windfall profit tax is imposed on all crude oil removed from the premises unless specifically exempt by the statute. The term "removal from the premises" includes the use of the crude oil on the property or the conversion of the oil into a refined product before the oil is physically removed from the premises. However, oil returned to or used on the property from which it came, either by reinjection or through the powering of production processes or equipment, is not considered sold or removed from the premises. Thus, for example, no tax is imposed on the on-site use of oil to generate power for an artificial lift device, water flood project or a tertiary injection process. However, oil removed from the premises prior to its use, or oil used to power refining or manufacturing processes on the premises is taxed.

Description of H.R. 4779

H.R. 4779 creates a new category of oil exempt from the windfall profit tax called "exempt production oil". "Exempt production oil" is defined as the number of barrels of domestic crude oil that is removed from a property during a calendar quarter, which would be taxable crude oil (but for this

provision), and which is exchanged solely for an equal number of barrels of residual fuel oil used by the producer in an enhanced recovery process with respect to such property during the quarter or next succeeding quarter. In order to prevent sheltering of higher taxed oil, exempt production oil is allocated among tiers of crude oil produced during the quarter on the basis of removal prices beginning with the highest of the prices received. In addition, no deduction for depletion is allowed for exempt production oil. This conforms to the income tax rule that applies to oil used on a lease and not sold. Finally, the exemption is allowed only to holders of working interests in the property.

Discussion

Treasury does not oppose adoption of H.R. 4779. We understand that before the enactment of the windfall profit tax it was the practice of oil producers in certain regions to provide heavy crude oil to refiners in exchange for equivalent amounts of residual fuel oil, which the producers would then use as fuel for enhanced recovery processes. This arrangement permitted the refiners to extract and market the lighter elements of the crude oil which otherwise would be lost if the crude oil was burned by the producer. These exchange arrangements were generally terminated when the windfall profit tax was enacted since producers were able to avoid the tax by using their crude oil directly as a fuel to power production equipment. However, refiners were deprived of a significant source of crude oil for their refinery operations.

The termination of exchange agreements between producers and refiners was an unintended product of the enactment of the windfall profit tax. H.R. 4779 would restore a beneficial industry practice. Furthermore, since, in the absence of this provision, producers would use their crude oil as a fuel on their property in an exempt use, granting an exemption for such crude oil when exchanged for residual fuel oil would not result in a revenue loss.

H.R. 5022

Percentage Depletion Not Allowable for Lease Bonuses and Advance Royalties With Respect to Oil and Gas Properties

Current Law

In 1975 Congress enacted Section 613A, which essentially repealed percentage depletion for oil and gas. An exception was

retained for production by producers and income received by royalty owners, but only to the extent of a limited volume of average daily production during the taxable year. Thus, under current law, independent producers and royalty owners can claim percentage depletion with respect to an average of 1,000 barrels of daily production of oil and gas equivalent. Proposed Treasury regulations under section 613A took the position that the average daily production requirement of the statute precluded amounts received in the form of bonus or advance royalties from qualifying for percentage depletion where there was no production in the year the bonus or advance royalty was received. However, in Commissioner v. Engle, 104 S. Ct. 597 (1984), the Supreme Court held that the adoption of the production limitation by Congress in 1975 did not indicate an intent on the part of Congress to terminate percentage depletion for bonuses and advance royalties, even in the absence of production in the year of payment.

Following the Supreme Court's action, the Service announced that lessors of oil and gas properties who receive bonuses or advance royalties generally will be allowed to deduct percentage depletion on those amounts in the year the amounts are includible in gross income. However, in order to meet the production limits of section 613A, lessors must convert bonuses or advance royalties to barrels of production. This conversion is to be based on the representative market or field price. This rule applies to lease bonuses and advance royalties includible in income after December 31, 1974.

Description of H.R. 5022

H.R. 5022 would override the Supreme Court's Engle decision with respect to bonuses and advance royalties paid on or after January 1, 1984.

Discussion

A lease bonus represents cash consideration paid by a lessee for the execution of an oil and gas lease by a landowner. An advance royalty differs from a bonus in that it is a pre-payment of the landowner's share of anticipated production. In Burnet v. Harmel, 287 U.S. 193 (1932), the Supreme Court held that a bonus payment is not taxable as proceeds from the sale of a capital asset, but rather is ordinary income attributable to the mineral property. Furthermore, the court held that the landowner was entitled to a depletion deduction in the year of receipt even though there was no production in that year because the bonus was attributable to anticipated production. The Burnet v. Harmel rule was extended to percentage depletion for bonuses and advance royalties in the case of Herring v. Commissioner, 293 U.S. 322 (1934).

As a matter of proper tax accounting, the allowance of a depletion deduction for anticipated depletion of a mineral deposit is questionable. While the landowner receives an unconditional payment from the lessee in the form of a bonus and, accordingly, should be taxed on that amount, he does not suffer any depletion of his mineral interest. The more appropriate tax rule would allow recovery of the landowner's basis in the property through a depletion deduction only when and as production occurs. Thus, Treasury Department agrees with the approach taken in H.R. 5022.

Nevertheless, in 1975 Congress determined that the availability of percentage depletion should continue to a limited extent for independent producers and royalty owners. The position adopted by the Service subsequent to the Engle decision represents a reasonable interpretation of section 613A. In evaluating H.R. 5022 Congress must reconsider the need for extending percentage depletion, even to a limited extent, to advance royalties and bonus payments.

H.R. 5199

Applicability of Farm Syndicate Rules of Section 278(b) to Inedible Fruits and Nuts

Current Law

In general, under section 278(b), a farming syndicate that is engaged in planting, cultivating, maintaining, or developing a grove, orchard, or vineyard in which fruit or nuts are grown is required to capitalize any amount that is attributable to that activity and that is incurred in a taxable year prior to the first taxable year in which the grove, orchard, or vineyard bears a crop or yield in commercial quantities.

The IRS recently published proposed regulations under section 278(b) that interpret that section as applying to syndicates that cultivate jojobas. The proposed regulations provide that, for purposes of section 278(b):

> A grove, orchard, or vineyard in which fruit or nuts are grown includes any group of trees, bushes, shrubs, or vines which produce a crop or yield of fruits or nuts. For purposes of this section, a "fruit" is defined as a fertilized and developed ovary of a plant, including the seeds, or, in the case of a plant that does not bear seeds, the

> fertile structure of the plant, and a "nut" is defined as a hard-shelled fruit. For example, fruits or nuts include apples, avocados, coffee beans, grapes, jojoba beans or seeds, pecans, pistachios and walnuts. (Prop. Reg. section 1.278-2(a)(2)).

Certain taxpayers have taken the position that the jojoba bean is not a "fruit or nut" because the bean is not edible, and that a tract of jojoba plants is not a "grove, orchard, or vineyard" because those terms generally refer to tracts of trees or vines, and the jojoba plant is not commonly considered a tree or vine. (According to Webster's New Collegiate Dictionary (1984), "jojoba" is defined as: "a shrub or small tree of the box family of southwestern No. America with edible seeds that yield a valuable liquid wax.")

Description of H.R. 5199

H.R. 5199 would amend section 278(b) to clarify that the provisions of that section apply to any farming syndicate engaged in planting, cultivating, maintaining, or developing a grove, orchard, vineyard, or other tract of trees, bushes, shrubs, or vines in which fruit or nuts (whether or not edible) are grown.

Discussion

Section 278(b) was added to the Code in 1976 because Congress intended that a farming syndicate conducting activities that result in the creation of long-lived crop-bearing or yield-bearing plants should not be entitled to deduct the costs of developing such plants to maturity in advance of the generation of income from such plants. Senate Report No. 94-938 (94th Cong., 2d Sess.), describing the tax rules underlying farming-related tax shelters prior to the enactment of section 278(b), explained that:

> Capital gain treatment is generally available on the sale of depreciable assets used in farming (as well as on the sale of the underlying farmland itself), even though these assets or land may have been developed or improved by expenditures which were deducted against ordinary income. In effect, a farm investor's income which is initially sheltered by accelerated farm deductions is transformed into added capital value of the farm asset and taxed as part of that value when the farm capital assets (vineyard, breeding animal, farmland, etc.) are later sold. . . . Generally, in farming operations tax losses can be shown in early years of an investment because of (1) the opportunity to

> deduct, when paid, costs which in nonfarm businesses would be inventoried and deducted in a later year, [and] (2) the ability to deduct, when paid, costs which should properly be capitalized . . . . The time value of deferring taxes on nonfarm income remains a strong attraction for outside investors to invest in farming and to use as much borrowed money as possible to create farm "tax losses." . . . The committee believes that the special farm tax rules should be severely curtailed for farming syndicates in which a substantial portion of the interest is held by taxpayers who are motivated, in very large part, by a desire to shelter other income, rather than by a desire to make a profit in the particular farming operation. (Id., at 52-58.)

Because jojoba beans were not produced in substantial quantities in 1976, the drafters of section 278(b) did not specifically consider whether the provision should apply to syndicates that cultivate jojobas. However, the legislative history of section 278(b) demonstrates that section to be an application of general tax accounting rules that require the cost of developing long-lived assets (such as jojoba plants) to be capitalized and cost recovery deductions to be claimed only after the asset begins producing income.

We believe that the amendment to section 278(b) proposed by H.R. 5199 is a correct statement of what is already the law, namely, that a farming syndicate engaged in the planting, cultivation, maintenance, or development of a tract of jojoba plants is required by section 278(b) to capitalize the costs of such activity for years preceding the first taxable year in which such tract bears a crop or yield in commercial quantities. Nonetheless, since some taxpayers take a contrary position, we support this clarifying amendment, on the ground that it would resolve any dispute over the application of section 278(b) to jojoba investments made after the effective date of the amendment. Moreover, the rule stated in the amendment is correct -- there is no good reason to treat jojobas differently from other long-lived plants for tax purposes.

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON October 4, 1984

TREASURY TO AUCTION $9,500 MILLION
OF 7-YEAR NOTES AND 20-YEAR 1-MONTH BONDS

The Department of the Treasury will auction $5,500 million of 7-year notes and $4,000 million of 20-year 1-month bonds to raise new cash. Additional amounts of the securities may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

Previously, Treasury announced its intention to test the market for a 5-year call feature on a 20-year bond. Current market conditions would not provide an appropriate test, and this issue will not be callable.

The Treasury will postpone the auctions unless it has assurance of Congressional action on legislation to raise the debt ceiling before the scheduled auction dates.

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

Attachment

oOo

R-2874

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 7-YEAR NOTES AND 20-YEAR 1-MONTH BONDS

October 4, 1984

Amount Offered:		
To the public	$5,500 million	$4,000 million
Description of Security:		
Term and type of security	7-year notes	20-year 1-month bonds
Series and CUSIP designation	Series G-1991 (CUSIP No. 912827 RG 9)	Bonds of 2004 (CUSIP No. 912810 DM 7)
Issue date	October 17, 1984	October 18, 1984
Maturity date	October 15, 1991	November 15, 2004
Call date	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
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	April 15 and October 15 (first payment on April 15, 1985)	May 15 and November 15 (first payment on May 15, 1985)
Minimum denomination available	$1,000	$1,000
Terms of Sale:		
Method of sale	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%
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
Accrued interest payable by investor	None	None
Payment through Treasury Tax and Loan (TT&L) Note Accounts	Acceptable for TT&L Note Option Depositaries	Acceptable for TT&L Note Option Depositaries
Payment by non-institutional investors	Full payment to be submitted with tender	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable	Acceptable
Key Dates:		
Receipt of tenders	Wednesday, October 10, 1984, prior to 1:00 p.m., EDST	Thursday, October 11, 1984, prior to 1:00 p.m., EDST
Settlement (final payment due from institutions)		
a) cash or Federal funds	Wednesday, October 17, 1984	Thursday, October 18, 1984
b) readily collectible check	Monday, October 15, 1984	Tuesday, October 16, 1984

TREASURY NEWS

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LIBRARY, ROOM 5310

FOR IMMEDIATE RELEASE October 9, 1984

OCT 11 3 39 PM '84
... OF THE TREASURY

TREASURY REDUCES AMOUNT OF WEEKLY BILL OFFERING

Treasury announced that the weekly bills auctioned today will be reduced by $.8 billion to avoid exceeding the debt limit. The amount previously announced of $6.6 billion of three-month bills and $6.6 billion of six-month bills will be reduced to $6.2 billion of three-month bills and $6.2 billion of six-month bills.

TREASURY NEWS

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

OCT 11 3 42 PM '84

DEPT OF THE TREASURY

REMARKS BY THE HONORABLE R. T. MCNAMAR
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
FINANCIAL EXECUTIVES INSTITUTE
NEW ORLEANS, LOUISIANA

October 8, 1984

Today, I would like to depart from the standard broad discussion of general economic issues and instead focus on an important evolution in international economics; the underlying causes of the recent years' exchange rate movements, and appreciation of the dollar and its implications.

As someone who in a previous incarnation struggled with FASB #8, I know this once was a subject of interest only to financial executives with international operations. But today all financial executives have a stake in foreign exchange market developments, because the floating exchange rate system for national currencies is the intermediary for today's integrated worldwide capital market. It affects your export competitiveness, your raw materials expense and your cost to raise new capital.

Many articles have been written recently about the reasons for the strengthened dollar. However, I believe too much of the discussion fails to analyze the fundamental forces that are driving the exchange market movements. By understanding the underlying fundamentals, I think you'll be in a better position to assess recent events, predict their overall future impact on your business, and understand the impact of domestic and international economic policies.

TRADITIONAL EXPLANATIONS

Many theories have been offered to explain the rise of the dollar. Most center on the behavior of shifts in trade or current account balances, U.S. interest rates, or inflation rates. But in my view these and other traditional explanations fall short, both on a conceptual and an empirical basis, of explaining the strength of the dollar in the last few years.

First, let's examine the external account balance argument -- the trade and current account balances. In college, we were all taught that exchange rate movements were linked to shifts in a country's trade and current account balances.

Second, although relative changes in interest rate differentials are clearly one element influencing exchange markets, they cannot -- and have not -- explained the dollar's persistent strength. Analysis shows that nominal interest rate differentials have decreased or moved <u>against</u> the dollar between early 1981 and the present. That is, the nominal interest rate spread has narrowed.

While interest rate differentials have moved in favor of the DM by 200 basis points and the French franc by 500 basis points since early 1981, the dollar has risen against the DM by 54 percent and against the franc by 104 percent. The same is true for other major currencies.

While differentials moved to favor sterling by 170 points, the dollar has appreciated against sterling by 92 percent. And despite a 270 basis point change in favor of Japan, there was a 22 percent dollar rise against the yen.

Pragmatically, if large nominal interest rate differentials are the sole key, much higher interest rate spreads have existed between the U.S. and any number of Latin American countries. But obviously people have not been selling dollar assets to buy those currencies. In short, this theory doesn't hold up to even minimal analytical scrutiny.

Most recently, we have seen a modest easing of U.S. rates, especially on the longer maturities -- and, at the same time, the dollar continues to appreciate.

Furthermore, the large deficit-high interest rate-high dollar hypothesis fails to distinguish between increased taxes and reduced federal spending as alternative policy choices to reduce the budget deficit. Either raising taxes or cutting spending will reduce the deficit per se, but each has significantly different domestic economic (and therefore exchange rate) effects. Suffice it to say that the large deficit-high interest rate-high dollar analyses assume a host of other variables (like monetary policy) are either perfectly anodyne or exogenous during the year. These seem naive assumptions, which is why I would label this a simplistic hypothesis.

As you can see, on both theoretical and pragmatic grounds, the oft-asserted deficit-interest rate relationship is a derivative and non-determinative one. As such, it is of little value in terms of explaining anticipated economic performance or predicting probable future exchange market developments.

MORE COMPLETE EXPLANATION

Instead, I submit that institutional investors alter exchange rates by shifting their portfolio preferences toward investments in countries where the anticipated relative after-tax, real rate of return from investments is higher, given comparable maturity and financial uncertainty and similar sovereign risks. And, when investors sense that there are current or prospective developments that will significantly alter anticipated relative rates of return to capital, they realign their investment preferences. Over time, the resulting international capital flows help to achieve a more efficient allocation of resources on a worldwide basis.

After-tax real rates of return are a function of the overall economic and political environment impacting the investment decision. As a result, one must analyze each of the key components in a country relative to other countries over the term of the investment. The components are each country's domestic:

-- Sustainable economic growth prospects

-- Projected inflation rates

-- Effective tax rates on investments

-- Capital market conditions

-- Government regulations and social rigidity

-- Sovereign and political risk

It is important to realize that at the margin it is the aggregate of these factors in each country relative to other nations that determines present and future exchange rates. The factors are weighted differently by diverse investors at any point in time, and are continually changing to reflect disparate scenarios for the future. It is the daily interaction of thousands of international institutional and corporate investors' decisions that determines the collective response to those factors.

While I cannot present a precise mathematical equation to calculate or predict exchange rates, I believe this suggested analytical framework is more comprehensive than most. As such, it suggests a model for evaluating the dollar's strong performance in recent years and drawing implications for future micro-economic policies for your firm and macro-economic policies for the nation. Let me briefly discuss each element.

Economic Growth and Vitality

The first factor in this framework is the relative overall economic performance of the major countries. Shifts in comparative performance do lead to shifts in both the direction and size of international capital flows. All other things held constant, a nation with a strong growing economy with relatively higher rates of return will result in institutional and personal investors preferring assets denominated in that nation's currency.

Clearly, in absolute terms there has been a dramatic improvement in U.S. economic performance over the past two years. But, we too often forget that relative to other countries, it has improved even more over the last several years.

The four largest European economic countries will likely average 2 to 2 1/2 percent growth in 1984, about the same as in 1979-80. Japan's growth is expected to be about 5 1/2 percent this year, a bit above its 1979-80 average of 5 percent. By contrast, our projected 7 plus percent real GNP growth this year compares with a U.S. average of slightly over one percent in 1979-80. Thus, while major European countries are back only to the growth rates they achieved in the 1970s, the real growth rate in the United States has quintupled.

While the United States has grown more rapidly than both Europe and Japan, the relative U.S. increase is larger vis-a-vis Europe. Thus it is not surprising that the yen has fallen much less against the dollar than have the European currencies. Consequently, since early 1981, the yen has strengthened notably against European currencies, rising 27 percent to record levels against the DM.

Inflation

In terms of inflation, the United States looks much better in both an absolute sense and relative to other major industrial countries in recent years.

Inflation rates have been cut in half abroad, but by three-fourths in the U.S. Our inflation rate was 12-13 percent in 1980 but is projected at about 4 percent this year. This will likely be below the European average of 6 percent, and closer to Japan's 2 1/2 percent. The point is that as excellent as our absolute performance is on inflation, it is even more impressive relative to the improvements in the rest of the world. Again, all other things being held constant, the anticipated real rates of return in the U.S. have improved on a comparative basis with other SDR countries.

Taxes

A third and too often ignored factor influencing investment flows is relative tax policies. I needn't tell FEI members that it is after-tax cash flow, not before-tax returns that count. You can't reinvest pre-tax earnings.

Again, the environment in the U.S. is relatively more attractive. The Economic Recovery Tax Act of 1981, more favorable depreciation allowances and tax credits, lower effective corporate income tax rates, and more attractive individual marginal rates and capital gains treatment have increased cash flow from business and individual investment and contributed to higher relative after-tax returns from both American corporate and government bonds as well as direct equity investments.

The interaction and competitiveness of international tax policies is well illustrated by the reaction of other governments to the United States action late this summer to remove our 30 percent withholding tax on interest paid to non-residents. Both West Germany and France have already announced their repeal of their withholding taxes on interest paid, to restore their relative competitive positions to the U.S. And, I expect the Japanese will consider it in the new Diet.

In announcing this move, the French Finance Ministry stated that the move has been taken "jointly with the German government ... to protect European financial markets from the negative effects brought on by the American government's decision...." Read that as "not further reducing the relative after-tax return on French franc denominated assets versus U.S. dollar denominated assets."

Capital Markets

The U.S. has the largest and deepest capital market in the world. Investors such as S.A.M.A. who want liquidity can always find it. Credit is widely available for attractive projects. Our stock markets are followed daily throughout the world. And, make no mistake, the anticipated relative performance of the world's stock markets immediately moves investment capital and therefore influences exchange rates. Consider the last six months.

The World Index of stock market performance compiled by Capital International Perspective demonstrated the recent comparative advantage of the U.S. stock market. In the second quarter, the World Index fell by 7.5 percent, with United States' prices declining only 4 percent. In the third quarter, the World Index rose 5.8 percent but was outpaced by the United States' 9.3 percent increase. By this measure, over the last six months, the

relative rate of return from being invested in U.S. stock market was pretax a net 6.5 percent higher than the rest of the world. Add our lower effective tax rates and inflation performance and it's no wonder that the demand for dollars continues.

Turning to debt, overseas investors have shown the same eagerness for corporate dollar denominated bonds. For the first nine months of this year, over $14 billion, or one-third of all American corporate bonds, were issued overseas. Is it the nominal interest rate differentials or the currency appreciation potential on the principal that attracts them? I would suggest that U.S. observers too often neglect the latter consideration, which is often of paramount importance to the foreign investor.

If further examples are needed to demonstrate the interplay of the world's capital markets, consider the recent years' experience in the reinsurance markets, where in the late 1970s and 1980, major Dutch, German and Swiss reinsurers were offering rates that most American primary lines underwriters thought were too low to be true. These resinsurance treaties contributed to the rate war and underwriting bloodbath from which the primary commercial lines companies are just emerging.

Subsequently, the Europeans, who may have suffered reinsurance underwriting losses from pricing the business so low to acquire it, profited handsomely from being invested in dollar denominated assets matched to their U.S. underwriting liabilities. First, the European reinsurers had a higher after-tax real rate of return here than in Europe. Second, when they reconverted the earnings to their local currency, they had substantially more guilders, marks, or francs than when they increased the original liability before the dollar appreciation. A lucky guess? No, simply a fully explainable shift of portfolio preferences by institutional money managers.

Government Regulation and Market Rigidities

Another factor in investors' judgments about relative return opportunities is their assessment of future comparative business environments. Here again the United States looks strong relative to other countries. In Europe, the extreme concern for job security and high levels of social insurance benefits have reduced the relative attractiveness of new investment and have contributed to less rather than more new employment. Regardless of who wins this November's U.S. election, they are viewed as providing a relatively more attractive investment climate.

Sovereign Risk

Finally, the political risk factor has favored the dollar in the past several years. Economic and political problems abroad have impacted investors' views of many non-U.S. investment opportunities.

These investor concerns have ranged from the impact of East European debt problems on German banks and the nationalizations in France following the Socialist victory, to worries about political instability and turmoil in the Middle East. The LDC debt situation, especially in some Latin American countries led to massive capital flight in the 1980-1983 period.

While in some cases investor fears may have been exaggerated, the perception that the United States is a safe and secure place for funds is not. These perceptions have certainly contributed to the capital flight to the dollar observed in some recent years.

Interplay of Factors

Perhaps the interplay of these factors and the manner in which they have driven the dollar in the last few years can best be illustrated by the actions of foreign investors in the sunbelt commercial real estate market.

Not long ago, real estate professionals were amazed by foreign investors' demand for real estate in this region and their willingness to pay such high prices for the property. From the foreign investors' perspective, they were willing to capitalize cash flows at much lower discount rates (as low as 4 percent in many cases) and, thereby, increase the present value of the investment, due to the relative attractiveness of this type of opportunity when compared with other opportunities in other parts of the world. Factors such as relative economic growth and inflation expectations, a favorable tax situation, and simply the ability to get their money back drove their decision-making process. The real estate professionals failed to understand these underlying factors, how they had changed, and the new interdependence of markets.

Exchange Market Conclusions

As I stated at the outset, international investors alter exchange rates by shifting their portfolio preferences toward investments in countries where the anticipated relative after-tax, real rate of return from investments is higher, given

comparable maturity and financial uncertainty and similar sovereign risks. And, when investors sense that there are current or prospective developments that will significantly alter future relative rates of return to capital, they react accordingly. As Business Week says, "America rules again because it is the mecca for investment capital."

Long term, the dollar and our position in world financial and investment markets will be tied to our ability to develop economic policies consistent with the new rules of capital flows. Today, this means abandoning the artificial bifurcation between domestic economic policy and international economic policy.

Policy Implications

Against this background, I would ask several admittedly rhetorical questions of those who complain that the dollar is "too high" and the government should "bring it down." How should we do that and by what policies? Are they suggesting the U.S. should have both more inflation and lower real economic growth in absolute terms and relative to other countries? Should the U.S. consciously decrease the after-tax rate of return from work, savings, and investment relative to other countries? Obviously, the answer is not an overhaul of present U.S. policies, but rather the need for a revision in other countries' policies to improve their relative investment performance outlook.

I believe the dollar's strength reflects, not some temporary interest rate or trade balance factor, but a fundamental improvement in U.S. economic policies, performance and prospects relative to the other reserve currencies. And I suggest more and more observers will begin to believe that the dollar will continue to be "strong" relative to the 1976-1980 years for the foreseeable future. Those crisis-mongers who warn of an imminent collapse simply haven't done their homework.

One caveat is necessary, though. To the extent that other countries do achieve more sustainable non-inflationary growth with all other factors being equal, I would expect that the currencies of these countries will prove more attractive to investors than they are today. Thus I would not be surprised to see some moderate downward realignment in the dollar to reflect, not U.S. weakness, but the greater strength of other countries' economic performance.

This analysis of the many underlying factors affecting exchange rates raises a number of important policy issues and implications. The international impact of each nation's individual policy decisions can be well illustrated by a current effort at Treasury.

As you know, in his State of the Union address the President commissioned us to develop a proposed reform of the tax system in this country; to make it fairer, simpler, and revenue neutral.

Today, our tax system is heavily biased toward borrowing and consumption -- in essence creating a disincentive for savings. This complicates our efforts to raise the capital needed to ensure sustained non-inflationary growth. Given our tax system biases, it is not surprising that the U.S. savings rate is low relative to other countries. But any decision made on U.S. tax reform will have important implications for the exchange markets. In effect, U.S. tax policies will be graded by the foreign exchange markets.

For instance, given the framework we've discussed, what might be the foreign exchange implications of:

1. Moving to a modified flat-rate tax?

2. Abolishing capital gains taxes?

3. Expensing all capital equipment rather than depreciating it?

4. Shifting from direct income tax system to an indirect tax system, say one with a value-added tax as a major component?

5. Basing the tax system not on income but on consumption?

These hypothetical questions all illustrate how U.S. tax policy changes might, all other things being equal, cause the after-tax rate of return to shift relative to other countries. This will most certainly be subsequently reflected in the exchange markets.

CONCLUSION

I hope this more comprehensive framework presents a useful background to translate the real meaning and underlying reasons for exchange rate movements. Important economic policy decisions are facing the nation in this election and during the next four years.

My conclusion is clear. Corporate treasurers, controllers, vice presidents of finance, portfolio managers and bank funding officers around the world have re-evaluated the view they had of

the United States in 1980 compared with that view today and once more found the U.S. the most attractive economy in the world. And if the current polls are right, I don't see that changing for four more years.

Thank you.

TREASURY NEWS

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FOR IMMEDIATE RELEASE

October 9, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,201 million of 13-week bills and for $6,202 million of 26-week bills, both to be issued on October 11, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 10, 1985			:	26-week bills maturing April 11, 1985		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	10.07%	10.47%	97.455	:	10.18%	10.88%	94.853
High	10.15%	10.56%	97.434	:	10.22%	10.93%	94.833
Average	10.11%	10.52%	97.444	:	10.21%	10.92%	94.838

Tenders at the high discount rate for the 13-week bills were allotted 02%.
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	$ 296,515	$ 48,515	:	$ 298,385	$ 48,385
New York	13,603,075	5,108,575	:	15,811,615	5,053,175
Philadelphia	32,325	32,325	:	20,720	20,720
Cleveland	41,930	41,930	:	43,475	43,475
Richmond	55,050	55,050	:	75,910	74,430
Atlanta	57,880	57,880	:	48,855	40,690
Chicago	985,010	135,610	:	1,277,505	193,295
St. Louis	41,820	41,820	:	48,145	23,145
Minneapolis	21,860	21,860	:	25,525	21,825
Kansas City	56,085	56,085	:	68,395	67,395
Dallas	67,525	62,625	:	36,295	26,295
San Francisco	809,590	210,430	:	808,315	92,505
Treasury	328,680	328,680	:	496,260	496,260
TOTALS	$16,397,345	$6,201,385	:	$19,059,400	$6,201,595
Type					
Competitive	$13,685,610	$3,989,650	:	$15,619,370	$3,261,565
Noncompetitive	1,223,700	1,223,700	:	1,222,130	1,222,130
Subtotal, Public	$14,909,310	$5,213,350	:	$16,841,500	$4,483,695
Federal Reserve	1,473,035	973,035	:	1,350,000	850,000
Foreign Official Institutions	15,000	15,000	:	867,900	867,900
TOTALS	$16,397,345	$6,201,385	:	$19,059,400	$6,201,595

1/ Equivalent coupon-issue yield.

R-2877

TREASURY NEWS

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

LIBRARY ROOM 5310

FOR RELEASE AT 4:00 P.M. October 9, 1984

OCT 16 7 53 AM '84
THE TREASURY

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $13,200 million, to be issued October 18, 1984. This offering will provide about $500 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $12,688 million, including $1,286 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,249 million currently held by Federal Reserve Banks for their own account. The additional $500 million of new cash to be raised is based on the assumption that Congress will have completed action to increase the debt limit. The two series offered are as follows:

91-day bills (to maturity date) for approximately $6,600 million, representing an additional amount of bills dated July 19, 1984, and to mature January 17, 1985 (CUSIP No. 912794 GQ 1), currently outstanding in the amount of $6,653 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $6,600 million, representing an additional amount of bills dated April 19, 1984, and to mature April 18, 1985 (CUSIP No. 912794 GK 4), currently outstanding in the amount of $8,282 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 October 18, 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-2878

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Daylight Saving time, Monday, October 15, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 October 18, 1984, in cash or other immediately-available funds or in Treasury bills maturing October 18, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

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

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 10, 1984

TREASURY POSTPONES AUCTION OF 7-YEAR NOTES

The Department of the Treasury announced that it is postponing the auction of $5,500 million of 7-year notes originally scheduled to be held today until Tuesday, October 16, 1984. The issue date of the 7-year notes shall be October 23, 1984, instead of October 17, as originally announced. The postponement is necessary because Congressional action on legislation to raise the debt limit is not assured at this time.

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R-2879

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 10, 1984

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TREASURY TO AUCTION $8,800 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $8,800 million of 2-year notes to refund $7,361 million of 2-year notes maturing October 31, 1984, and to raise $1,450 million new cash. The additional $1,450 million of new cash to be raised is based on the assumption that Congress will have completed action to increase the debt limit. The $7,361 million of maturing 2-year notes are those held by the public, including $1,314 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $8,800 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 $529 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-2880

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED OCTOBER 31, 1984

October 10, 1984

Amount Offered:
To the public .... $8,800 million

Description of Security:
Term and type of security .... 2-year notes
Series and CUSIP designation .... Series Z-1986
(CUSIP No. 912827 RK 0)
Maturity date .... October 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 .... April 30 and October 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
Payment through Treasury Tax and Loan (TT&L) Note Accounts .... Acceptable for TT&L Note Option Depositaries
Deposit guarantee by designated institutions .... Acceptable

Key Dates:
Receipt of tenders .... Wednesday, October 17, 1984, prior to 1:00 p.m., EDST
Settlement (final payment due from institutions)
a) cash or Federal funds .... Wednesday, October 31, 1984
b) readily collectible check ..... Monday, October 29, 1984

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 11, 1984

TREASURY POSTPONES AUCTION OF 20-YEAR 1-MONTH BONDS

The Department of the Treasury announced that it is postponing the auction of $4,000 million of 20-year 1-month bonds originally scheduled to be held today, until Tuesday, October 23, 1984. The issue date of the bonds shall be October 30, 1984, instead of October 18, as originally announced. The postponement is necessary because Congressional action on legislation to raise the debt limit is not assured at this time.

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R-2881

TREASURY NEWS

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

FOR RELEASE AT 9 p.m.
October 12, 1984

CONTACT: Art Siddon
566-2041

U.S. Treasury Department Announces Short-Term Financing Arrangements for the Philippines

The Treasury Department announced today that it has joined the Bank of Japan and the Bank of Korea in arrangements which will provide short-term financing totaling $80 million in support of the economic adjustment program of the Republic of the Philippines which has been agreed with the management of the International Monetary Fund (IMF). In this connection, it is expected that the Philippines will be eligible shortly for balance of payments financing from the IMF under a new stand-by arrangement upon approval by the Executive Board.

The short-term financing commitments announced today include $45 million from the U.S. Treasury through the Exchange Stabilization Fund, $30 million from the Bank of Japan, and $5 million from the Bank of Korea. Financing will be made available when the Managing Director of the IMF confirms that the IMF has received assurances of the availability of adequate financing in support of the Philippine economic adjustment program and formally submits the new stand-by arrangement to the Executive Board. It is expected that the short-term financing provided by the Treasury, the Bank of Japan and the Bank of Korea will be repaid through the use of resources drawn by the Philippines from the IMF.

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R-2882

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 12, 1984

TREASURY ANNOUNCES OFFERINGS OF 3-YEAR 11-MONTH DOMESTIC NOTES AND 3-YEAR 11-MONTH FOREIGN-TARGETED NOTES

The Department of the Treasury will auction $6,000 million of 3-year 11-month domestic notes and up to $1,000 million of 3-year 11-month foreign-targeted notes to raise new cash.

The $6,000 million of domestic notes are being offered to the public, and amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount at the average price of accepted competitive tenders. Additional amounts of domestic notes will be provided at the average price of accepted competitive tenders in exchange for the $300 million of Treasury bills, issued to Federal Reserve Banks for their own account on October 1, 1984, for securities maturing September 30, 1984, that were not refunded in the 2-year note auction of September 19, 1984.

The auction of foreign-targeted notes is the first such Treasury public offering specifically directed to foreign investors. The foreign-targeted notes will be sold only to foreign institutions or to foreign branches of United States financial institutions, and only under competitive bidding. A maximum of $1,000 million of bids will be accepted, and if less than $500 million of acceptable bids are received, none will be accepted. A bidder must certify that, as of the date of issuance, the notes are not being acquired for, or for offer to resell to, a United States person. In any event, the issue may not be sold to United States persons for 45 days (until December 9, 1984). United States persons who purchase the notes from December 9, 1984 onwards must meet U.S. tax requirements. In addition, such notes may be exchanged for the companion domestic notes in accordance with the terms of the circular.

Details about both security offerings are given in the highlights of the offerings on the reverse side and in the official Offering Circulars. Potential bidders for the foreign-targeted notes should obtain copies of the Offering Circular, which are available at the Federal Reserve Bank of New York, Securities Department, Room 835, or at the Treasury Department, Public Affairs, Room 2315, Washington, D.C.

R-2883

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 3-YEAR 11-MONTH DOMESTIC NOTES AND OF 3-YEAR 11-MONTH FOREIGN-TARGETED NOTES TO BE ISSUED OCTOBER 31, 1984

October 12, 1984

	Domestic	Foreign-Targeted
Amount Offered	$6,000 million	Up to $1,000 million
Eligible Bidders	The Public	Foreign institutions or foreign branches of United States financial institutions.
Description of Security:		
Term and type of security	3-year 11-month notes	3-year 11-month foreign-targeted notes
Series	Series N-1988	Series P-1988
CUSIP designation	CUSIP No. 912827 RH 7	CUSIP No. 912827 RJ 3
Maturity Date	September 30, 1988	September 30, 1988
Interest Rate	To be determined based on the average of accepted bids	Same as the rate established in the companion domestic auction
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	March 31 and September 30	September 30
Minimum denomination available	$1,000	$1,000
Terms of Sale:		
Method of Sale	Yield auction	Yield auction
Competitive bids	Must be expressed as an annual yield, with two decimals, e.g., 7.10%, based on a semi-annual interest payment	Must be submitted to the Federal Reserve Bank (FRB) New York and expressed as an annual yield, with two decimals, e.g., 7.10%, based on an annual interest payment
Noncompetitive bids	Accepted in full at the average price up to $1,000,000	Not permitted
Minimum bid	$1,000	Aggregate amount at lowest yield bid for must be at least $50,000,000. See Section 6 of Offering Circular.
Payment Instructions:		
Designation of paying institution	No provision	See Section 6 of Offering Circular.
Payment by non-institutional investors	Full payment to be submitted with tender	Not applicable
Guarantee by designated institution (when required)	Acceptable	See Section 6 of Offering Circular.
Payment through Treasury Tax and Loan (TT&L) Note Accounts	Acceptable for TT&L Note Option Depositaries	No provision
Key Dates:		
Receipt of tenders	Wednesday, October 24, 1984, prior to 1:00 p.m., EDST	Wednesday, October 24, 1984, prior to 1:00 p.m., EDST, at FRB New York
Settlement		
a) Funds immediately available to the Treasury	Wednesday, October 31, 1984	Wednesday, October 31, 1984, no later than 9:00 a.m., EST, at FRB New York
b) Readily-collectible check	Monday, October 29, 1984	Not applicable

UNITED STATES OF AMERICA

FOREIGN - TARGETED TREASURY NOTES OF SEPTEMBER 30, 1988
SERIES P-1988

Department of the Treasury

Offering Circular

October 10, 1984

Outside the United States, this offering circular is for informational purposes and does not constitute an offer or solicitation, and it may not be used for the purpose of or in connection with any offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

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Attachment A Sample Tender Form

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UNITED STATES OF AMERICA

FOREIGN-TARGETED TREASURY NOTES OF SEPTEMBER 30, 1988
SERIES P-1988

DEPARTMENT CIRCULAR
Public Debt Series No. 31-84

DEPARTMENT OF THE TREASURY,
OFFICE OF THE SECRETARY,
Washington, D.C., October 10, 1984.

Section 1. INVITATION FOR TENDERS

1.1. Introduction. The Secretary of the Treasury, pursuant to the authority granted him by Chapter 31 of Title 31, United States Code, invites tenders for up to $1,000,000,000 of United States securities designated Foreign-Targeted Treasury Notes of September 30, 1988, Series P-1988 (CUSIP No. 912827 RJ 3) (collectively the "Notes", individually a "Note"). The Notes will be auctioned in the United States on October 24, 1984, by competitive bidding only. Payment must be made as set forth below in United States dollars. The stated interest rate on the Notes and the price equivalent of each accepted bid will be determined in the manner described in Section 6.7.

1.2. Targeted Nature of the Notes. Treasury will sell the Notes only to Bidders as defined in Section 2.1. Bidders must acquire the Notes only for themselves or on behalf of, or for sale or other transfer to, United States Aliens as defined in Section 2.18 or foreign branches of United States Financial Institutions. In addition, any transfers by Bidders after December 8, 1984, to Qualifed Holders as defined in Section 2.14 that are United States Persons must be consistent with the tax certification described in Section 11.2.

1.3. Transfer Restrictions. Before December 9, 1984, the Notes may not be sold or transferred to a United States Person as defined in Section 2.19, other than a foreign branch of a United States Financial Institution. Each Bidder for the Notes must certify on the tender form for the Notes that it will not sell, contract to sell, or otherwise transfer the Notes to a United States Person, other than a foreign branch of a United States Financial Institution, before December 9, 1984. Each Bidder further agrees that, if it sells, contracts to sell, or otherwise transfers the Notes before December 9, 1984, it will confirm to such purchaser or transferee in writing that (i) there is a restriction on sale or other transfer to United States Persons other than foreign branches of United States Financial Institutions and (ii) that such confirmation is required to be given to any subsequent purchaser or transferee that acquires the Notes before December 9, 1984. The transfer restriction of this Section 1.3 is in addition to the tax certification of a Bidder described in Section 11.2. As described in Section 11.2, the Bidder must certify that, as of the date of issuance, Notes acquired by the Bidder will not be owned by a United States Person, other than a foreign branch of a United States Financial Institution, and that the Notes are not being acquired on behalf of such a person, or for offer to resell or for resale to such a person. This tax certification requirement is independent of the transfer restriction of this Section 1.3.

1.4. Tax Treatment. The Notes are subject to United States federal income tax as provided in the Internal Revenue Code as defined in Section 2.8. Interest on the Notes paid to a United States Alien is not subject to United States federal income tax if the conditions of sections 871(h) or 881(c) of the Internal Revenue Code and the regulations related thereto are satisfied. The discussion in Section 11 is only a

2.12. Paying Institution. A Financial Institution that has a reserve, clearing, or other dollar account with FRB NY and that has been designated on the tender form to pay for Notes.

2.13. Primary Dealer. A dealer that makes primary markets in United States Government securities and reports its positions in and borrowings on such securities daily to FRB NY.

2.14. Qualified Holder. Before December 9, 1984, a United States Alien or a foreign branch of a United States Financial Institution and after December 8, 1984, a United States Alien or a United States Person.

2.15. Registered Owner. The Financial Institution specifically identified on the records of FRB NY maintained for an International Account, or, for Notes held in book-entry form in a book-entry account other than an International Account, the Holding Institution, or, if a Note is held in definitive form, the person whose name is inscribed on a Definitive Note and recorded on the books of FRB NY.

2.16. Secretary. The Secretary of the United States Department of the Treasury, the legal successor of the Secretary, and delegates of the Secretary or such legal successor.

2.17. Treasury. The United States Department of the Treasury.

2.18. United States Alien. A corporation, partnership, individual, or fiduciary that for United States federal income tax purposes, as to the United States (including its territories, possessions, all areas subject to its jurisdiction and the Commonwealth of Puerto Rico), is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a nonresident alien individual, or a nonresident alien fiduciary of a foreign estate or trust.

2.19. United States Person. A citizen, national, or resident of the United States; a corporation, partnership, or other entity created or organized in or under the laws of the United States or any political subdivision thereof; or an estate or trust that is subject to United States federal income tax regardless of the source of its income.

2.20. United States-Related Person. A United States Person, a controlled foreign corporation within the meaning of section 957(a) of the Internal Revenue Code, or a foreign corporation 50 percent or more of whose gross income from all sources for the three-year period ending with the close of the taxable year preceding the subject payment was effectively connected with the conduct of a trade or business in the United States.

2.21. Withholding Agent. The United States Person that would be required to deduct and withhold United States federal income tax from interest on the Notes under sections 1441(a) or 1442(a) of the Internal Revenue Code if such interest were not portfolio interest within the meaning of sections 871(h) and 881(c) of the Internal Revenue Code.

Section 3. FISCAL AGENT AS REGISTRAR

3.1. Fiscal Agent as Registrar. FRB NY is designated to act on behalf of Treasury as the exclusive fiscal agent and, as such, registrar for this issue. FRB NY is authorized to receive tender forms and payment,

bids are irrevocable. A sample tender form is set forth at Attachment A. Tender forms may be obtained at FRB NY and at Treasury offices in Washington, D.C. beginning Tuesday, October 9, 1984.

6.3. Payment Instructions. Bidders are required to make arrangements to pay for the Notes before submitting a bid. Each Bidder must designate a Paying Institution on the tender form. Except as set forth below, each Paying Institution must advise FRB NY no later than 12:00 noon New York time on October 23, 1984, that it has agreed to serve as a Paying Institution for a named Bidder. That advice must be given in the form set forth at Attachment B to this offering circular. The Attachment B notice is not required if (i) the Bidder and its designated Paying Institution are the same legal entity or (ii) the Paying Institution is submitting the tender form as agent for a Bidder, and if the signature of the authorized signer of the Paying Institution on the tender form is on file with FRB NY as an authorized signature of the Paying Institution. The Paying Institution may withdraw or modify its agreement to serve as Paying Institution by notifying FRB NY in accordance with Attachment B. The withdrawal of a Paying Institution after a bid has been accepted does not relieve the Bidder of its obligation to pay for the Notes in funds available to Treasury at FRB NY no later than 9:00 a.m. New York time on October 31, 1984.

6.4. Payment Guarantees. A Payment Guarantee is required unless (i) the Bidder and its designated Paying Institution are the same legal entity or (ii) the Bidder is a foreign branch (not a subsidiary) of a Primary Dealer. A Payment Guarantee may be provided by a Paying Institution or by a Primary Dealer. If the Payment Guarantee is provided by a Paying Institution or a Primary Dealer that is signing the tender form, it must be provided on the tender form. If the Payment Guarantee is provided by a Paying Institution that is not signing the tender form, it must be provided in a letter in the form of Attachment C. If the Payment Guarantee is provided by a Primary Dealer that is not signing the tender form, it must be submitted in a letter in the form of Attachment C. Payment Guarantees in the form of Attachment C must be received by FRB NY no later than 12:00 noon New York time on October 23, 1984. In addition to any other remedies available to the Secretary, the amount of this Payment Guarantee is subject to forfeiture in the Secretary's sole discretion if full payment for the Notes is not made in funds available to Treasury at FRB NY no later than 9:00 a.m. New York time on October 31, 1984.

6.5. Minimum Bid. The par amount of the bid must be stated on each tender form. Multiple bids by a single Bidder are permitted. Each bid, however, must be submitted on a separate tender form. All bids must be in multiples of $1,000,000 and the aggregate amount bid at the lowest yield by each Bidder must be at least $50,000,000. A bid must show the annual yield for which it is submitted to two decimals, e.g., 7.10%, based on an annual interest payment. Fractions may not be used.

6.6. Maximum Awards. A Bidder, whether bidding individually or as a member of one or more syndicates, will not be awarded Notes with a par value in excess of $350,000,000. A syndicate will not be awarded Notes in excess of $500,000,000. If a Bidder submits one or more bids with a total par value in excess of such maximum awards, the excess (starting at the highest yield bid) will be disregarded for purposes of the prorated calculations referred to in Section 6.8. A syndicate must disclose: (i) the identity of any syndicate member that is submitting one or more other bids (either individually or as a member of another syndicate) if that member's total bids exceed $350,000,000, and (ii) the amount of Notes included in the syndicate bid for such disclosed syndicate member. Apart from such disclosures, the identity of syndicate members other than the head of the syndicate need not be disclosed.

8.2. Transfer of Book-Entry Notes. Before December 9, 1984, FRB NY will transfer the Notes only between International Accounts. After December 8, 1984, the Notes may be transferred between any book-entry accounts of any Holding Institutions.

8.3. Book-Entry System. Book-entry records at FRB NY will reflect the aggregate holdings of Notes of each Holding Institution by account. The Holding Institution, and each subsequent holder in the chain to the ultimate beneficial owner, will have the responsibility of establishing and maintaining accounts for its customers. FRB NY will be responsible only for maintaining the book-entry accounts in its system, effecting transfers on its books, and ensuring that payments are made to the Holding Institution identified in its book-entry system. With respect to the Notes, FRB NY will act only upon instructions of the Holding Institution holding the Notes.

8.4. FRB NY as Fiscal Agent. FRB NY acts as fiscal agent of Treasury. All other holders in the chain between FRB NY and the ultimate beneficial owner act as agents of the beneficial owner or as agents of intermediary Financial Institutions and not as agents of Treasury.

8.5. Payment of Interest and Principal. Interest on Notes in book-entry form will be paid on the interest payment date, and Notes will be redeemed at par on the maturity date. Funds for interest or redemption payments will be credited to the Holding Institution. In the event an interest payment date or the maturity date is a Saturday, Sunday, or other day on which Treasury in Washington, D.C. or FRB NY is not open for business, the interest or principal is payable (without additional interest) on the next day that both the Treasury in Washington, D.C. and FRB NY are open for business.

Section 9. DEFINITIVE NOTES

9.1. Definitive Notes. After December 8, 1984, book-entry Notes held at FRB NY may be converted to Definitive Notes. Each Definitive Note will contain on its face the following legend: "This obligation has been sold at original issuance in accordance with procedures reasonably designed to ensure that it will be sold only to a person that is not a United States person, other than a foreign branch of a United States financial institution, pursuant to sections 871(h) and 881(c) of the Internal Revenue Code of 1954, as amended."

9.2. Requests for Conversion to Definitive Notes. The request for conversion of book-entry Notes to Definitive Notes may be made to FRB NY only by a Holding Institution and must provide the name and address of the Registered Owner. The Registered Owner of a Definitive Note may be the beneficial owner or someone holding the Note on behalf of a beneficial owner. Upon receipt of the appropriate certification as described in Section 11, FRB NY will deliver the Definitive Note either over the counter or via registered mail in accordance with the instructions provided by the Holding Institution submitting the request for a Definitive Note.

10.2. Taxation. Upon exchange for Domestic Notes, the holder of such Domestic Notes will be required to comply with the tax requirements (including certification requirements) applicable to Domestic Notes. See also Section 11.

10.3. Adjustment Upon Exchange. At the time of the exchange of Notes for Domestic Notes, an adjustment will be made for the difference between the present value of the Notes based on the formula in Attachment D for Treasury notes paying annual interest and the present value of the Notes based on the formula in Attachment D for Treasury notes paying semiannual interest. This net adjustment consists of the Exchange Adjustment and accrued interest, if applicable. As used in this offering circular, "Exchange Adjustment" means the difference in the present values of the Notes resulting from applying the formulas in Attachment D, after adjusting for the difference in accrued interest. In determining present values, the future payments of interest and principal will be discounted by using the weighted average yield of the Notes at the time of auction in applying the annual formula and by using the semiannual equivalent of that yield in applying the semiannual formula. Calculation of the present values will be made using the formulas shown in Attachment D hereto. In the event the present value of the Notes based on semiannual interest payments exceeds the present value of the Notes based on annual interest payments, the holder must pay to Treasury an amount equal to the excess before the exchange will be processed. In the event the present value of the Notes based on the annual interest payments exceeds the present value of the Notes based on the semiannual interest payments, the holder will receive on the exchange an amount equal to the excess. The net adjustment will not reflect or take into account any market-based factor.

10.4. Closed-Book Periods. Exchange transactions involving Notes or Domestic Notes in definitive form will not be accepted during closed-book periods that will be in effect during the period of one calendar month prior to and ending on an interest payment date and the maturity date. Exchange transactions involving only Notes and Domestic Notes in book-entry form may not be accepted on the last day on which FRB NY is open for business preceding an interest payment date and the maturity date. The registration books for Notes and Domestic Notes in definitive form will be reopened on the first day following an interest payment date on which FRB NY is open for business. Except for the closed-book periods, exchange transactions involving only book-entry securities normally will be processed within one day; all other exchange transactions normally will be processed within one week of receipt by FRB NY. No exchanges will be allowed after the maturity date of the Notes.

Section 11. UNITED STATES TAXATION

11.1. Taxation of Interest and Principal to United States Aliens. Payments of interest and principal on the Notes to a United States Alien will not be subject to withholding of United States federal income tax if the Withholding Agent receives an effective certificate under Sections 11.4, 11.5, 11.6, or 11.7, and the other requirements described in the applicable section are satisfied. Failure to satisfy the requirements described in this Section 11.1 may result in imposition of a withholding tax.

11.6. Interest Certification For Beneficial Owners that are United States Persons. A Withholding Agent may make a payment of interest on a Note to a Registered Owner that is a Financial Institution at an address outside the United States without withholding United States federal income tax if the Withholding Agent receives an effective statement, as described below, from the Financial Institution (relating to beneficial ownership by certain United States Persons), and, if the Financial Institution is not a United States-Related Person, the Withholding Agent makes the information returns described in Section 11.9. If the Financial Institution is a United States-Related Person, the statement must be signed under the penalties of perjury by an authorized representative of the Financial Institution and must state that the institution has received from the beneficial owner a certificate, as described below, and that the institution will make such information returns and otherwise comply with information reporting required under the Internal Revenue Code. If the Financial Institution is not a United States-Related Person, the statement must be signed under penalties of perjury by an authorized representative of the Financial Institution and must state (i) that the institution has received from the beneficial owner a certificate, as described below, or (ii) that it has received from another Financial Institution a similar statement that it, or another Financial Institution acting on behalf of the beneficial owner, has received a certificate, as described below, from the beneficial owner. In the case of multiple Financial Institutions between the beneficial owner and the person otherwise required to withhold, this statement must be given by each Financial Institution to the one above it in the chain. The certificate from the beneficial owner must (i) be signed by the beneficial owner under penalties of perjury, (ii) provide the name and address of the beneficial owner, (iii) provide the United States taxpayer identification number and state that it is the beneficial owner's correct number, and (iv) state that the beneficial owner is not subject to backup withholding due to notified payee underreporting. This certificate may be provided on Internal Revenue Service Form W-9 or a substitute form that is substantially similar to a Form W-9. No particular form is required for the statement provided by the Financial Institutions. However, the statement must provide the name and address of the beneficial owner, and a copy of the Form W-9 or substitute form must be attached.

11.7. Interest Certification In Other Cases. A Withholding Agent may make a payment of interest on a Note to a Registered Owner without withholding United States federal income tax if (i) the Withholding Agent does not have actual knowledge that the beneficial owner of the Note is a United States Person (other than a foreign branch of a United States Financial Institution), and if (ii) the Withholding Agent receives a certificate from the Registered Owner that (A) is signed by the beneficial owner under penalties of perjury, (B) certifies that such owner is not a United States Person, or in the case of an individual, that he is neither a citizen nor a resident of the United States, and (C) provides the name and address of the beneficial owner. The statement may be made, at the option of the Withholding Agent, on Internal Revenue Service Form W-8 or on a substitute form that is substantially similar to a Form W-8. A Withholding Agent also may make a payment of interest to a United States Alien Registered Owner without withholding United States federal income tax if an appropriate statement is provided to the Withholding Agent by a Financial Institution. In such case the statement must describe the obligation, be signed under penalties of perjury by an authorized representative of the Financial Institution and state (i) that the Financial Institution has received from the beneficial owner a Form W-8 or substitute form, or (ii) that it has received from another Financial Institution a similar statement that it, or another Financial Institution acting on behalf of the beneficial owner, has received the

11.12. Information Reporting and Backup Withholding. Neither information reporting under sections 6041 or 6049 of the Internal Revenue Code nor backup withholding will apply to interest paid on a Note to a United States Alien if (i) the conditions of Section 11.1 are satisfied, (ii) the payor of the interest does not have actual knowledge that the payee is a United States Person, and (iii) if the payor is a United States-Related Person acting as a custodian, nominee or other agent of the payee, the payor has documentary evidence in its records that the payee is not a United States citizen or resident. Neither information reporting under section 6045 of the Internal Revenue Code nor backup withholding will apply to payments of principal made outside the United States on a Note to a United States Alien (i) if the payor of the principal is not a United States-Related Person; or (ii) if the payor is a United States-Related Person acting as a custodian, nominee or other agent of the payee, the payor does not have actual knowledge that the payee is a United States Person (other than a foreign branch of a United States Financial Institution) and has documentary evidence in its records that the payee is not such a person. Principal will be considered paid to a Registered Owner outside the United States if either the Note is recorded in a Holding Institution's International Account and principal is credited for that account, or principal on a Definitive Note is delivered to the holder outside the United States.

11.13. Original Issue Discount. The Secretary shall determine whether the Notes will be considered issued with original issue discount within the meaning of section 1273(a)(1) of the Internal Revenue Code. In the event the Notes are issued with original issue discount, that fact and the amount of the discount will be announced in an Internal Revenue Service publication. See also Section 11.15. A United States Alien described in Section 11.2 that is a holder of a Note will not be subject to United States federal income tax and no withholding of United States federal income tax will be required as a consequence of the Note having original issue discount if the conditions of Section 11.1 are satisfied with respect to stated interest on the Note. A holder of a Note that is a United States Person generally will be required to include in income the portion of the original issue discount allocable to each day during the year on which the Note is held. Any such income will increase such holder's tax basis for the Note, and any gain or loss on a sale of the Note, determined by comparing the amount realized in such sale with the holder's basis, as so adjusted, generally will be capital gain or loss.

11.14. Taxation of Gains to United States Aliens. A holder of a Note that is a United States Alien will not be subject to the United States federal income tax and no withholding of United States federal income tax will be required with respect to any gain realized on the sale, redemption or exchange of the Note provided such gain is not effectively connected with a United States trade or business, and further provided that: (i) if such United States Alien is a nonresident alien individual, such individual is not present in the United States for a total of 183 days or more during the taxable year in which such gain is realized, is not subject to tax under section 877 of the Internal Revenue Code as an expatriate of the United States and is not treated as a resident of the United States for the taxable year in which the gain is recognized under sections 6013(g) or 6013(h) of the Internal Revenue Code; or (ii) if such United States Alien holder is a foreign corporation, such foreign corporation will not have a past or present status as a personal holding company with respect to the United States or as a corporation which accumulates earnings to avoid United States federal income tax.

13.5. Eligibility for Clearance. The Notes will be eligible for clearance on Euro-Clear and CEDEL.

13.6. Headings. The headings of sections and subsections in this offering circular are inserted for convenience of reference only and shall not be deemed to be part of this offering circular.

13.7. Attachments Incorporated. Attachments A through D and any terms and conditions set forth therein are incorporated as part of this offering circular.

13.8. Waiver. The Secretary reserves the right, in his discretion, to waive any provision or provisions of this offering circular.

13.9. Sale in the United States. The Notes are offered for sale only in the United States. Resale or reoffering of the Notes outside the United States is authorized only when such resale or reoffering complies with the securities laws and other applicable laws of jurisdictions in which such resale or reoffering occurs. Bidders and their agents are responsible for ensuring compliance with the laws of such jurisdictions.

Carole Jones Dineen
Fiscal Assistant Secretary

Attachment A

TENDER FOR 3- YEAR 11- MONTH FOREIGN - TARGETED TREASURY NOTES OF SEPTEMBER 30, 1988, SERIES P- 1988

IMPORTANT—ONLY COMPETITIVE TENDERS WILL BE ACCEPTED AND MUST BE RECEIVED BY THE FEDERAL RESERVE BANK OF NEW YORK BEFORE 1:00 P.M. NEW YORK TIME ON OCTOBER 24, 1984.

To: Federal Reserve Bank of New York
Fiscal Agent of the United States
33 Liberty Street
New York, New York 10045

The undersigned offers to purchase the above-described Notes in the amount indicated below and agrees to make payment therefor at FRB NY in accordance with the provisions of the official offering circular (Department Circular, Public Debt Series No. 31-84). The definitions in the official offering circular apply to this tender form.

The total par amount bid at the lowest yield must be at least $50,000,000. Par amount bid for must be a multiple of $1,000,000. Bidders may submit multiple bids but each bid must be submitted on a separate tender form.

COMPETITIVE TENDER

PAR AMOUNT **ANNUAL YIELD**

$..............................(United States dollars)
(maturity value)

....
(Yield must be expressed to two decimal places, for example, 7.10%)

☐ Check here if this is a syndicate bid.

DELIVERY AND PAYMENT INSTRUCTIONS

Issue book-entry Notes to be held at FRB NY in an International Account of ....

....
(Name and Address of Holding Institution)

Payment for Notes awarded will be made through..
(Name and Address of Paying Institution)

☐ By charge to reserve account; ☐ By charge to clearing account; ☐ By charge to other dollar account

Authorization for such charge must be on file with FRB NY in accordance with the provisions of the official offering circular. If otherwise eligible, the Holding Institution and the Paying Institution may be, but do not have to be, the same.

Bid may be submitted only by or on behalf of Bidders as defined in the official offering circular. If the tender form is submitted by a United States Person, other than a foreign branch of a United States Financial Institution, it must be acting solely as agent for a disclosed Bidder.

Bidder.

TENDER FORM IS SUBMITTED BY: (Please print or type)

NAME...

ADDRESS...

CITY...................STATE...ZIP CODE...............

COUNTRY..

AREA CODE...... TELEPHONE NUMBER..............

If acting as agent, Bidder must be identified below.
If Bidder is a syndicate, the head of the syndicate must be identified below.

NAME..

ADDRESS...

....

BIDS WILL BE CONSIDERED ONLY IF THE REVERSE SIDE IS COMPLETED AND EXECUTED.

Attachment B

[Letterhead of Paying Institution]

Federal Reserve Bank of New York
33 Liberty Street, Room 835
New York, New York 10045
Attn: Mr. Stuart Zorfas
Chief, Securities Department

Gentlemen:

1. We hereby authorize you to debit our (reserve, clearing, or other dollar) account in an amount not to exceed $____________________, as payment for Notes awarded to (name Bidder). Terms used herein shall have the same meaning as set forth in the official offering circular (Department Circular, Public Debt Series No. 31-84).

2. We retain the right to modify or withdraw this authority. We understand that any such modification or withdrawal must be in writing and must be delivered to FRB NY.

3. We further understand that any Notes paid for by a debit to our (reserve, clearing, or other dollar) account will be issued to our International Account. (This sentence is not required if the Paying Institution signing this letter is willing to permit the Notes paid for under this authorization to be issued to another Holding Institution's International Account.)

4. The following signature(s) is (are) a specimen of the authorized signature(s) which will appear on the tender form submitted by (name of Bidder):

Attachment C

[Letterhead of Guarantor]

Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045
Attn: Mr. Stuart Zorfas
Chief, Securities Department

Gentlemen:

This is to advise you that we guarantee payment to Treasury of an amount equal to 5% of the par amount, but not in excess of $__________, of any United States securities targeted to foreign investors ("Securities") for which ______________________________bids.
(name of Bidder)

We acknowledge that this guarantee may not be withdrawn during any period between the deadline for submission of bids for Securities and payment for those Securities.

____
(Name of Guarantor)

By: ______________________________
(Authorized Signature)

____
(Name and Title of Authorized Signer)

____
(Date)

Receipt Acknowledged:

____
FRB NY

TERMS AND FORM OF THIS LETTER MAY NOT BE ALTERED

Formulas for Calculating the Present Value (Price Plus Accrued Interest) of Treasury Notes Paying Semiannual Interest*

A. Calculation during an initial "short" interest period

$$(P+A) = \frac{(r''/s)(C/2) + (C/2)a_{\overline{n}|} + 100v^n}{(1 + i/2)^f}$$

and $A = [(r'' - r)/s](C/2)$

B. Calculation where the next payment is for a "full" seminannual interest period

$$(P+A) = \frac{C/2 + (C/2)a_{\overline{n}|} + 100v^n}{(1 + i/2)^f}$$

and $A = [(s - r)/s](C/2)$

where:

P = Price in decimals.
A = Accrued interest from original issue date or last interest payment date to valuation date.
r = Exact number of days from valuation date to next interest payment date.
r'' = Exact number of days from the original issue date to the first interest payment date.
f = $r'/180$ where r' is days from valuation date to next interest payment date calculated on a 360 days per year basis from and including the day following the valuation date up to and including the next interest payment date. A full month will be counted as thirty days and a date occurring on the thirty-first calendar day of a month shall be the same as the first calendar day of the following month.
s = Exact number of days in current semiannual period.
i = Interest rate, based on semiannual interest payments (expressed in decimals).
C = Regular annual coupon, payable semiannually.
n = Number of full semiannual periods from valuation date to maturity.
v^n = $1/(1 + i/2)^n$ = present value of 1 due at the end of n periods.
$a_{\overline{n}|}$ = $(1 - v^n)/(i/2) = v + v^2 + v^3 + \dots + v^n$ = present value of 1 per period for n periods.

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* These formulas will only be used for making calculations involved in exchanging targeted registered issues for companion regular Treasury issues.

Sample Exchange Values for a Hypothetical 4-Year Note Dated 10/31/84 and Maturing 9/30/88

Dates of Exchange	12-1/2% Annual Coupon @ 12.57%ann	12-1/2% Semi-Annual Coupon @ 12.20% s/a	Accrued Interest	Exchange Adjustment	Net Adjustment (to Treasury) to Investor
12/10/84	P = 99.781416 A = 1.354167 P+A = 101.135583	P = 100.844821 A = 1.373626 P+A = 102.218447	(0.019459)	(1.063405)	(1.082864)
1/15/85	P = 99.737099 A = 2.569444 P+A = 102.306543	P = 100.792242 A = 2.609890 P+A = 103.402132	(0.040446)	(1.055143)	(1.095589)
6/30/85	P = 99.713420 A = 8.298611 P+A = 108.012031	P = 100.756393 A = 3.107923 P+A = 103.864316	5.190688	(1.042973)	4.147715
9/30/85	P = 99.833505 A = none P+A = 99.833505	P = 100.735287 A = none P+A = 100.735287	-0-	(0.901782)	(0.901782)
5/15/86	P = 99.689238 A = 7.812500 P+A = 107.501738	P = 100.593959 A = 1.536885 P+A = 102.130844	6.275615	(0.904721)	5.370894
8/15/87	P = 99.848420 A = 10.937500 P+A = 110.785920	P = 100.280396 A = 4.678962 P+A = 104.959358	6.258538	(0.431976)	5.826562
4/30/88	P = 99.792783 A = 7.291667 P+A = 107.084450	P = 100.109938 A = 1.024590 P+A = 101.134528	6.267077	(0.317155)	5.949922

Figures merely illustrate exchange value computations and are not intended to apply to the Notes offered in this circular.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 15, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,613 million of 13-week bills and for $ 6,612 million of 26-week bills, both to be issued on October 18, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 17, 1985			:	26-week bills maturing April 18, 1985		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	9.96%	10.36%	97.482	:	10.06%	10.75%	94.914
High	9.99%	10.39%	97.475	:	10.08%	10.77%	94.904
Average	9.98%	10.38%	97.477	:	10.08%	10.77%	94.904

Tenders at the high discount rate for the 13-week bills were allotted 30%.
Tenders at the high discount rate for the 26-week bills were allotted 87%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 294,085	$ 182,235	:	$ 292,615	$ 41,050
New York	17,848,180	5,148,780	:	15,064,045	4,849,595
Philadelphia	32,555	32,555	:	19,670	19,670
Cleveland	86,965	49,965	:	51,245	31,245
Richmond	69,690	56,890	:	58,460	55,265
Atlanta	53,485	51,785	:	35,035	35,035
Chicago	1,226,820	296,620	:	1,276,540	359,950
St. Louis	72,600	51,800	:	58,330	33,330
Minneapolis	8,165	8,165	:	13,880	13,685
Kansas City	49,070	49,070	:	46,435	45,370
Dallas	62,355	33,855	:	30,735	30,085
San Francisco	1,531,395	325,095	:	1,721,970	669,130
Treasury	326,105	326,105	:	428,850	428,850
TOTALS	$21,661,470	$6,612,920	:	$19,097,810	$6,612,260
Type					
Competitive	$19,208,435	$4,259,885	:	$16,335,700	$3,950,150
Noncompetitive	1,144,305	1,144,305	:	1,069,110	1,069,110
Subtotal, Public	$20,352,740	$5,404,190	:	$17,404,810	$5,019,260
Federal Reserve	1,149,230	1,049,230	:	1,100,000	1,000,000
Foreign Official Institutions	159,500	159,500	:	593,000	593,000
TOTALS	$21,661,470	$6,612,920	:	$19,097,810	$6,612,260

1/ Equivalent coupon-issue yield.

R-2884

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 16, 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 $13,200 million, to be issued October 25, 1984. This offering will provide about $1,525 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $11,673 million, including $1,264 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $1,713 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 $ 6,600 million, representing an additional amount of bills dated January 26, 1984, and to mature January 24, 1985 (CUSIP No. 912794 GG 3), currently outstanding in the amount of $15,134 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,600 million, to be dated October 25, 1984, and to mature April 25, 1985 (CUSIP No. 912794 HA 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing October 25, 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-2885

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Daylight Saving time, Monday, October 22, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 October 25, 1984, in cash or other immediately-available funds or in Treasury bills maturing October 25, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

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

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

October 16, 1984

RESULTS OF AUCTION OF 7-YEAR NOTES

The Department of the Treasury has accepted $5,513 million of $11,537 million of tenders received from the public for the 7-year notes, Series G-1991, auctioned today. The notes will be issued October 23, 1984, and mature October 15, 1991.

The interest rate on the notes will be 12-1/4%. The range of accepted competitive bids, and the corresponding prices at the 12-1/4% interest rate are as follows:

	Yield	Price
Low	12.30% 1/	99.770
High	12.35%	99.541
Average	12.34%	99.587

Tenders at the high yield were allotted 94%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 194,754	$ 29,754
New York	9,245,317	4,711,497
Philadelphia	8,300	7,800
Cleveland	56,094	31,094
Richmond	35,967	16,437
Atlanta	23,434	21,434
Chicago	801,020	204,650
St. Louis	86,788	84,668
Minneapolis	19,669	19,549
Kansas City	38,863	38,333
Dallas	8,264	8,264
San Francisco	1,016,036	336,826
Treasury	2,513	2,513
Totals	$11,537,019	$5,512,819

The $5,513 million of accepted tenders includes $516 million of noncompetitive tenders and $4,997 million of competitive tenders from the public.

In addition to the $5,513 million of tenders accepted in the auction process, $230 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities.

1/ Excepting 2 tenders totaling $25,000.

R-2886

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 17, 1984

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $8,800 million of $ 19,425 million of tenders received from the public for the 2-year notes, Series Z-1986, auctioned today. The notes will be issued October 31, 1984, and mature October 31, 1986.

The interest rate on the notes will be 11-5/8%. The range of accepted competitive bids, and the corresponding prices at the 11-5/8% interest rate are as follows:

	Yield	Price
Low	11.69%	99.887
High	11.75%	99.783
Average	11.73%	99.818

Tenders at the high yield were allotted 73%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 368,280	$ 95,260
New York	15,813,965	6,802,270
Philadelphia	29,755	29,755
Cleveland	93,085	89,845
Richmond	120,530	103,290
Atlanta	84,280	78,275
Chicago	1,285,055	561,520
St. Louis	162,550	140,660
Minneapolis	37,615	32,615
Kansas City	100,420	100,285
Dallas	17,735	17,735
San Francisco	1,308,160	745,040
Treasury	3,625	3,625
Totals	$19,425,055	$8,800,175

The $ 8,800 million of accepted tenders includes $ 929 million of noncompetitive tenders and $ 7,871 million of competitive tenders from the public.

In addition to the $ 8,800 million of tenders accepted in the auction process, $ 375 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $ 529 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-2887

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 18, 1984

CONTACT: Charlie Powers
(202) 566 - 2041

Treasury Department and Internal Revenue Service
Provide Background Information on
Netherlands Antilles Finance Subsidiary Rulings

The Treasury Department and the Internal Revenue Service provided today background information concerning two recent Internal Revenue Service rulings (Revenue Rulings 84-152 and 84-153) as they apply to the tax consequences of Netherlands Antilles finance subsidiaries of United States corporations.

The Internal Revenue Service stated that the rulings describe the tax law generally applicable to Netherlands Antilles finance subsidiaries, taking into account the June 22, 1984 grandfather date adopted by the Congress. In the Tax Reform Act of 1984, enacted on July 18, 1984, Congress repealed the 30 percent withholding tax on portfolio interest paid to foreign investors. As part of the repeal legislation Congress provided protection for obligations issued through Netherlands Antilles finance subsidiaries prior to June 22, 1984. The Internal Revenue Service rulings simply apply the grandfather date contained in the repeal legislation.

The Internal Revenue Service stated that issuers of, or investors in, obligations in process prior to June 22, 1984, who believe that they have a reasonable basis for relief from the operation of the rulings for obligations of Netherlands Antilles finance subsidiaries issued during the period between June 22, 1984 and July 18, 1984, should take advantage of existing procedures to request such relief promptly from the Internal Revenue Service. Such requests for relief will receive expedited consideration.

The rulings have no effect on the eligibility for repeal of the withholding tax for issues after July 18, 1984. The Treasury Department noted that the tax consequences of the recently announced Treasury issue of targeted securities, as described in the Offering Circular previously released, are unaffected by the Internal Revenue Service rulings.

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R-2838

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON October 19, 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 November 1, 1984, and to mature October 31, 1985 (CUSIP No. 912794 HN 7). This issue will provide about $475 million new cash for the Treasury, as the maturing 52-week bill was originally issued in the amount of $7,774 million.

The bills will be issued for cash and in exchange for Treasury bills maturing November 1, 1984. In addition to the maturing 52-week bills, there are $9,659 million of maturing 13-week and 26-week bills and $2,995 million of 150-day cash management bills. The disposition of these latter amounts will be announced next week. Federal Reserve Banks as agents for foreign and international monetary authorities currently hold $2,209 million, and Federal Reserve Banks for their own account hold $2,628 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 $360 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. 20239, prior to 1:00 p.m., Eastern Daylight Saving time, Thursday, October 25, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 November 1, 1984, in cash or other immediately-available funds or in Treasury bills maturing November 1, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, 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. • Tele[illegible]ione 566-2041

File

FOR IMMEDIATE RELEASE
October 22, 1984

CONTACT: Charles Powers
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TREASURY RELEASES REVISED COST RECOVERY RATES FOR REAL PROPERTY

Washington, D.C. -- The Treasury Department today announced the revised cost recovery rates for real property under the Accelerated Cost Recovery System ("ACRS"). ACRS was enacted as part of the Economic Recovery Tax Act of 1981 ("ERTA") (P.L. 97-34) and was recently revised by The Tax Reform Act of 1984 ("TRA") (P.L. 98-369). The revisions generally apply to property placed in service by taxpayers after March 15, 1984.

The revisions enacted as part of the TRA require the Secretary of the Treasury to prescribe tables setting forth revised recovery rates for real property. Further, in prescribing these tables, for real property other than low-income housing, Treasury generally is directed to take into account a mid-month convention. That is, real property placed in service by the taxpayer at any time during a particular month is to be treated as placed in service in the middle of such month, thereby permitting one-half month's cost recovery for the month the property is placed in service. A similar convention is to be applied with respect to dispositions at any time during a particular month prior to the end of the recovery period, thereby also permitting one-half month's cost recovery for the month of disposition. Such mid-month convention, however, is generally applicable only to property placed in service by taxpayers after June 22, 1984. For recovery property placed in service prior to that time, a full-month convention is used. Under the full-month convention, real property placed in service by the taxpayer at any time during a particular month is treated as placed in service on the first day of such month, thereby permitting a full month's cost recovery for the month the property is placed in service. In the case of a disposition at any time during a particular month prior to the end of the recovery period, no cost recovery is permitted for such month of dispositon.

The revised cost recovery rates for real property are presented in the attached tables. Table 1 provides the rates to be used generally with respect to real property (other than low-income housing) placed in service after June 22, 1984, and is based on the use of the mid-month convention and the 18-year 175-percent declining balance method switching to the straight

line method at a time to maximize the amounts deductible.

Table 2 provides the rates to be used generally with respect to real property (other than low-income housing) placed in service after March 15, 1984, but before June 23, 1984, and is based on the use of a full-month convention and the 18-year 175-percent declining balance method switching to the straight line method at a time to maximize the amounts deductible.

Table 3 provides the rates to be used generally with respect to real property (other than low-income housing) placed in service after June 22, 1984, for which an optional 18-year straight line method is elected and is based on the use of the mid-month convention.

Table 4 provides the rates to be used generally with respect to real property placed in service after March 15, 1984, but before June 23, 1984, for which an optional 18-year straight line method is elected and is based on the use of a full-month convention. Table 4 also generally applies to all low-income housing placed in service after March 15, 1984, for which an optional 18-year straight line method is elected.

Table 5 provides the rates to be used generally with respect to real property (other than low-income housing) placed in service after June 22, 1984, for which an optional 35-year straight line method is elected and is based on the use of the mid-month convention. Proposed Treasury Reg. § 1.168-2(c)(4)(ii)(B) provides the rates applicable generally to real property (other than low-income housing) placed in service before June 23, 1984, and low-income housing placed in service after December 31, 1980, for which an optional 35-year straight line method is elected.

Table 6 provides the rates to be used generally with respect to real property (other than low-income housing) placed in service after June 22, 1984, for which an optional 45-year straight line method is elected and is based on the use of the mid-month convention. Proposed Treasury Reg. § 1.168-2(c)(4)(ii)(C) provides the rates applicable generally to real property (other than low-income housing) placed in service before June 23, 1984, and low-income housing placed in service after December 31, 1980, for which an optional 45-year straight line method is elected.

Table 7 provides the rates to be used generally with respect to real property used predominantly outside the United States that is placed in service after June 22, 1984, and is based on the use of the mid-month convention and the 35-year 150-percent declining balance method switching to the straight line method at a time to maximize the amounts deductible. Proposed Treasury Reg. § 1.168-2(g)(2)(ii) provides the rates applicable generally to real property used predominantly outside the United States

that is placed in service after December 31, 1980, but before June 23, 1984.

In using these tables, there are separate rate schedules depending on the month in the taxable year that the property is placed in service by the taxpayer. For example, if a calendar year domestic taxpayer places 18-year real property in service in August, 1984, the cost recovery schedule to be used generally will be table 1, column 8 (e.g., 4 percent for the first recovery year, 9 percent for the second recovery year, etc.).

Taxpayers with fiscal years beginning in 1983, who have placed in service 18-year real property, should use the 1983 Form 4562, Depreciation and Amortization. The recovery deduction should be entered on Line 2(f). In Column D, "18 YRS" should be entered for the recovery period, unless an alternate period is elected. The appropriate percentage (as determined from the attached tables) should be entered in Column F. The 1984 instructions to Form 4562 should be used with these tables.

As indicated above, the tables have already incorporated the use of either the mid-month or full-month convention for the year the property is placed in service. In the case of a disposition prior to the end of the recovery period, taxpayers must appropriately prorate the table amount to take into account the mid-month or full-month convention, whichever is applicable. In the case of a short taxable year, appropriate adjustments must also be made to the table amounts. See e.g., Proposed Treasury Reg. § 1.168-2(f), applicable with respect to the full-month convention.

Examples. The following examples illustrate the application of the mid-month convention. For the rules relating to the application of the full-month convention, see Proposed Treasury Reg. § 1.168-2(a)(3) and (f).

Example (1). On March 31, 1985, domestic corporation X, a calendar year taxpayer that has been engaged in the rental real estate business for 10 years, acquires and places in service 18-year real property that has an unadjusted basis of $100,000. X does not elect to use the optional recovery percentages under Internal Revenue Code section 168(b)(3). The recovery allowance for the 18-year real property for X's 1985 taxable year is $8,000.00 (i.e., .08 x $100,000).

Example (2). The facts are the same as in example (1), with the added fact that on August 1, 1986, X sells the property for $125,000. In such case, the table amount otherwise determined for the second year must be prorated by a fraction, the numerator of which equals the number of months in the taxable year that the property is in service in the taxpayer's trade or business or used for the production of income and the denominator of which is 12. For purposes of this rule, the property is treated as disposed of in the middle of the month, regardless of

the actual date of disposition during that month. The recovery allowance for the 18-year real property for X's 1986 taxable year is $5,625.00 (i.e., .09 x $100,000 x 7.5/12.0).

Example (3). The facts are the same as in example (1), with the added fact that on November 25, 1985, X sells the property for $110,000. In this case, where the property is disposed of in the first recovery year, the table amount otherwise determined for the first recovery year must be prorated by a fraction, the numerator of which equals the number of months in the taxable year that the property is in service in the taxpayer's trade or business or used for the production of income and the denominator of which is the number of months that the property would have been in service or used for the production of income if the property were not disposed of prior to the end of the first recovery year. For purposes of this rule, the property is treated as placed in service in the middle of a month, regardless of the actual date the property is placed in service during that month. Similarly, the property is treated as disposed of in the middle of a month, regardless of the actual date of disposition during that month. The recovery allowance for the 18-year real property for X's 1985 taxable year is $6,736.84 (i.e., .08 x $100,000 x 8.0/9.5).

Example (4). The facts are the same as in example (1), except that X is formed on February 10, 1985, and, therefore, has a short taxable year for 1985 within the meaning of Internal Revenue Code section 168(f)(5). Since the property is 18-year real property, however, the recovery allowance for 1985, the year the property is placed in service, is computed as though it were a full taxable year. Because the recovery property would have been deemed placed in service in the middle of the third month of X's normal taxable year, the recovery property is deemed placed in service in the middle of the third month of X's 1985 short taxable year. The recovery allowance for the 18-year real property for X's 1985 taxable year is $8,000.00 (i.e., .08 x $100,000).

Example (5). (i) The facts are the same as in example (1), with the added fact that on July 20, 1986, X joins an affiliated group filing consolidated returns with a September 30 fiscal year.

(ii) X has a short taxable year within the meaning of Internal Revenue Code section 168(f)(5) for the taxable year beginning January 1, 1986, and ending July 20, 1986. Since that short taxable year is neither the year the property is placed in service nor disposed of, the table amount otherwise determined for the second recovery year must be prorated by a fraction, the numerator of which equals the number of months in the short taxable year and the denominator of which is 12. Since there are successive short taxable years, the proration for the short taxable year ending July 20, 1986, does not include the month of July under the rules of Proposed Treasury Reg.

§ 1.168-2(f)(5). The recovery allowance for the 18-year real property for X's taxable year ending July 20, 1986, is $4,500.00 (i.e., .09 x $100,000 x 6/12).

(iii) X also has a short taxable year for the taxable year beginning July 21, 1986, and ending September 30, 1986. Since that short taxable year is neither the year the property is placed in service nor disposed of, the table amount otherwise determined for the third recovery year must be prorated by a fraction, the numerator of which equals the number of months in the short taxable year and the denominator of which is 12. Since there are successive short taxable years, the proration for the short taxable year ending September 30, 1986, does include the month of July under the rules of Proposed Treasury Reg. § 1.168-2(f)(5). The recovery allowance for the 18-year real property for X's taxable year ending September 30, 1986, is $2,000.00 (i.e., .08 x $100,000 x 3/12).

(iv) In the taxable years following the last year in the recovery period, a recovery allowance will be permitted generally to the extent of any unrecovered allowance under the rules of Proposed Treasury Reg. § 1.168-2(f)(3).

Example (6). (i) The facts are the same as in example (5), with the added fact that on August 1, 1986, X sells the property for $125,000.

(ii) The recovery allowance for the 18-year real property for X's short taxable year ending July 20, 1986, is the same as in example (5).

(iii) X's taxable year beginning July 21, 1986, and ending September 30, 1986, is now a short taxable year in which the property is disposed of. Accordingly, the table amount for the third recovery year need not be prorated for the short taxable year, but, nevertheless, must be prorated because of the special rule for the year of disposition in Internal Revenue Code section 168(b)(2)(B). The table amount otherwise determined for the third recovery year must be prorated by a fraction, the numerator of which equals the number of months in the taxable year that the property is in service in the taxpayer's trade or business or used for the production of income and the denominator of which is 12. For purposes of this rule, the property is treated as disposed of in the middle of a month, regardless of the actual date of disposition during that month. Since the month of July was not counted for X's taxable year ending July 20, 1986, such month should be counted for X's short taxable year ending September 30, 1986, under the principles of Proposed Treasury Reg. § 1.168-2(f)(5). The recovery allowance for the 18-year real property for X's taxable year ending August 31, 1986, in which the property is disposed of is $1,000.00 (i.e., .08 x $100,000 x 1.5/12.0).

ACRS Cost Recovery Tables for 18-Year Real Property

1. 18-Year Real Property (18-Year 175% Declining Balance) (Assuming Mid-Month Convention)

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed in Service is:											
	1	2	3	4	5	6	7	8	9	10	11	12
	The applicable percentage is:											
1	9	9	8	7	6	5	4	4	3	2	1	0.4
2	9	9	9	9	9	9	9	9	9	10	10	10.0
3	8	8	8	8	8	8	8	8	9	9	9	9.0
4	7	7	7	7	7	8	8	8	8	8	8	8.0
5	7	7	7	7	7	7	7	7	7	7	7	7.0
6	6	6	6	6	6	6	6	6	6	6	6	6.0
7	5	5	5	5	6	6	6	6	6	6	6	6.0
8	5	5	5	5	5	5	5	5	5	5	5	5.0
9	5	5	5	5	5	5	5	5	5	5	5	5.0
10	5	5	5	5	5	5	5	5	5	5	5	5.0
11	5	5	5	5	5	5	5	5	5	5	5	5.0
12	5	5	5	5	5	5	5	5	5	5	5	5.0
13	4	4	4	5	4	4	5	4	4	4	5	5.0
14	4	4	4	4	4	4	4	4	4	4	4	4.0
15	4	4	4	4	4	4	4	4	4	4	4	4.0
16	4	4	4	4	4	4	4	4	4	4	4	4.0
17	4	4	4	4	4	4	4	4	4	4	4	4.0
18	4	3	4	4	4	4	4	4	4	4	4	4.0
19		1	1	1	2	2	2	3	3	3	3	3.6

2. 18-Year Real Property (18-Year 175% Declining Balance) (Assuming No Mid-Month Convention)

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed is Service is:									
	1	2	3	4	5	6	7	8	9	10-11	12
	The applicable percentage is:										
1	10	9	8	7	6	6	5	4	3	2	1
2	9	9	9	9	9	9	9	9	9	10	10
3	8	8	8	8	8	8	8	8	9	9	9
4	7	7	7	7	7	7	8	8	8	8	8
5	6	7	7	7	7	7	7	7	7	7	7
6	6	6	6	6	6	6	6	6	6	6	6
7	5	5	5	5	6	6	6	6	6	6	6
8	5	5	5	5	5	5	5	5	5	5	5
9	5	5	5	5	5	5	5	5	5	5	5
10	5	5	5	5	5	5	5	5	5	5	5
11	5	5	5	5	5	5	5	5	5	5	5
12	5	5	5	5	5	5	5	5	5	5	5
13	4	4	4	5	5	4	4	5	4	4	4
14	4	4	4	4	4	4	4	4	4	4	4
15	4	4	4	4	4	4	4	4	4	4	4
16	4	4	4	4	4	4	4	4	4	4	4
17	4	4	4	4	4	4	4	4	4	4	4
18	4	4	4	4	4	4	4	4	4	4	4
19			1	1	1	2	2	2	3	3	4

3. 18-Year Real Property For Which An Optional 18-Year Straight Line Method is Elected (Assuming Mid-Month Convention)

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed in Service is:					
	1-2	3-4	5-7	8-9	10-11	12
	The applicable percentage is:					
1	5	4	3	2	1	0.2
2	6	6	6	6	6	6.0
3	6	6	6	6	6	6.0
4	6	6	6	6	6	6.0
5	6	6	6	6	6	6.0
6	6	6	6	6	6	6.0
7	6	6	6	6	6	6.0
8	6	6	6	6	6	6.0
9	6	6	6	6	6	6.0
10	6	6	6	6	6	6.0
11	5	5	5	5	5	5.8
12	5	5	5	5	5	5.0
13	5	5	5	5	5	5.0
14	5	5	5	5	5	5.0
15	5	5	5	5	5	5.0
16	5	5	5	5	5	5.0
17	5	5	5	5	5	5.0
18	5	5	5	5	5	5.0
19	1	2	3	4	5	5.0

4. <u>18-Year Real Property For Which an Optional 18-Year Straight Line Method is Elected (Assuming No Mid-Month Convention)</u>

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed in Service is:						
	1	2-3	4-5	6-7	8-9	10-11	12
	The applicable percentage is:						
1	6	5	4	3	2	1	0.5
2	6	6	6	6	6	6	6.0
3	6	6	6	6	6	6	6.0
4	6	6	6	6	6	6	6.0
5	6	6	6	6	6	6	6.0
6	6	6	6	6	6	6	6.0
7	6	6	6	6	6	6	6.0
8	6	6	6	6	6	6	6.0
9	6	6	6	6	6	6	6.0
10	6	6	6	6	6	6	6.0
11	5	5	5	5	5	5	5.5
12	5	5	5	5	5	5	5.0
13	5	5	5	5	5	5	5.0
14	5	5	5	5	5	5	5.0
15	5	5	5	5	5	5	5.0
16	5	5	5	5	5	5	5.0
17	5	5	5	5	5	5	5.0
18	5	5	5	5	5	5	5.0
19		1	2	3	4	5	5.0

5. 18-Year Real Property For Which an Optional 35-Year Straight Line Method is Elected (Assuming Mid-Month Convention)

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed in Service is:				
	1-2	3-6	7-10	11	12
	The applicable percentage is:				
1	3	2	1	0.4	0.1
2	3	3	3	3.0	3.0
3	3	3	3	3.0	3.0
4	3	3	3	3.0	3.0
5	3	3	3	3.0	3.0
6	3	3	3	3.0	3.0
7	3	3	3	3.0	3.0
8	3	3	3	3.0	3.0
9	3	3	3	3.0	3.0
10	3	3	3	3.0	3.0
11	3	3	3	3.0	3.0
12	3	3	3	3.0	3.0
13	3	3	3	3.0	3.0
14	3	3	3	3.0	3.0
15	3	3	3	3.0	3.0
16	3	3	3	3.0	3.0
17	3	3	3	3.0	3.0
18	3	3	3	3.0	3.0
19	3	3	3	3.0	3.0

20	3	3	3	3.0	3.0
21	3	3	3	3.0	3.0
22	3	3	3	3.0	3.0
23	3	3	3	3.0	3.0
24	3	3	3	3.0	3.0
25	3	3	3	3.0	3.0
26	3	3	3	3.0	3.0
27	3	3	3	3.0	3.0
28	3	3	3	3.0	3.0
29	3	3	3	3.0	3.0
30	3	3	3	3.0	3.0
31	2	2	2	2.6	2.9
32	2	2	2	2.0	2.0
33	2	2	2	2.0	2.0
34	2	2	2	2.0	2.0
35	2	2	2	2.0	2.0
36		1	2	2.0	2.0

6. 18-Year Real Property For Which an Optional 45-Year Straight Line Method is Elected (Assuming Mid-Month Convention)

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed in Service is:											
	1	2	3	4	5	6	7	8	9	10	11	12
	The applicable percentage is:											
1	2.1	1.9	1.8	1.6	1.4	1.2	1.0	0.8	0.6	0.5	0.3	0.1
2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
6	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
7	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
8	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
9	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
10	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
11	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
12	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
13	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
14	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
15	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
16	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
17	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
18	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
19	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2

20	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
21	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
22	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
23	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
24	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
25	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
26	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
27	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
28	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
29	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
30	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
31	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
32	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
33	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
34	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
35	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
36	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
37	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
38	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
39	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
40	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
41	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
42	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
43	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
44	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
45	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
46	0.1	0.3	0.4	0.6	0.8	1.0	1.2	1.4	1.6	1.7	1.9	2.1

7. <u>18-Year Real Property Used Predominantly Outside the U.S. (35-Year 150% Declining Balance) (Assuming Mid-Month Convention)</u>

If the Recovery Year is:	And the Month in the First Recovery Year the Property is Placed in Service is:						
	1	2	3	4-5	6-8	9-11	12
	The applicable percentage is:						
1	4	4	3	3	2	1	0.2
2	4	4	4	4	4	4	4.0
3	4	4	4	4	4	4	4.0
4	4	4	4	4	4	4	4.0
5	4	4	4	4	4	4	4.0
6	3	3	3	3	4	4	4.0
7	3	3	3	3	3	3	3.8
8	3	3	3	3	3	3	3.0
9	3	3	3	3	3	3	3.0
10	3	3	3	3	3	3	3.0
11	3	3	3	3	3	3	3.0
12	3	3	3	3	3	3	3.0
13	3	3	3	3	3	3	3.0
14	3	3	3	3	3	3	3.0
15	3	3	3	3	3	3	3.0
16	3	3	3	3	3	3	3.0
17	3	3	3	3	3	3	3.0
18	3	3	3	3	3	3	3.0
19	3	3	3	3	3	3	3.0
20	3	3	3	3	3	3	3.0
21	3	3	3	3	3	3	3.0

22	3	3	3	3	3	3	3.0
23	3	3	3	3	3	3	3.0
24	3	3	3	3	3	3	3.0
25	3	2	3	2	2	3	3.0
26	2	2	2	2	2	2	2.0
27	2	2	2	2	2	2	2.0
28	2	2	2	2	2	2	2.0
29	2	2	2	2	2	2	2.0
30	2	2	2	2	2	2	2.0
31	2	2	2	2	2	2	2.0
32	2	2	2	2	2	2	2.0
33	2	2	2	2	2	2	2.0
34	2	2	2	2	2	2	2.0
35	2	2	2	2	2	2	2.0
36		1	1	2	2	2	2.0

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

FOR IMMEDIATE RELEASE October 22, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,603 million of 13-week bills and for $6,603 million of 26-week bills, both to be issued on October 25, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 24, 1985			:	26-week bills maturing April 25, 1985		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	9.48%	9.85%	97.604	:	9.53% a/	10.15%	95.182
High	9.57%	9.94%	97.581	:	9.62%	10.25%	95.137
Average	9.54%	9.91%	97.589	:	9.57%	10.20%	95.162

a/ Excepting 1 tender of $500,000.

Tenders at the high discount rate for the 13-week bills were allotted 27%.
Tenders at the high discount rate for the 26-week bills were allotted 41%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 348,665	$ 348,665	:	$ 341,210	$ 161,710
New York	13,104,595	4,565,305	:	15,281,825	4,661,825
Philadelphia	28,795	28,795	:	17,400	17,400
Cleveland	114,995	114,995	:	60,615	60,615
Richmond	45,995	45,995	:	57,790	57,790
Atlanta	52,595	52,595	:	92,035	92,035
Chicago	1,042,685	211,685	:	1,078,945	314,445
St. Louis	77,125	57,125	:	46,970	46,970
Minneapolis	31,855	31,855	:	36,525	36,525
Kansas City	53,845	53,845	:	49,250	48,750
Dallas	36,610	36,610	:	25,920	25,920
San Francisco	1,358,815	750,615	:	1,365,330	664,330
Treasury	305,000	305,000	:	415,005	415,005
TOTALS	$16,601,575	$6,603,085	:	$18,868,820	$6,603,320
Type					
Competitive	$14,540,020	$4,541,530	:	$16,275,840	$4,010,340
Noncompetitive	1,123,720	1,123,720	:	1,040,680	1,040,680
Subtotal, Public	$15,663,740	$5,665,250	:	$17,316,520	$5,051,020
Federal Reserve	862,835	862,835	:	850,000	850,000
Foreign Official Institutions	75,000	75,000	:	702,300	702,300
TOTALS	$16,601,575	$6,603,085	:	$18,868,820	$6,603,320

1/ Equivalent coupon-issue yield.

R-2891

TREASURY NEWS

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

For Release Upon Delivery
Expected at 1:00 p.m. EDT

Remarks by
Donald T. Regan
Secretary of the Treasury
before the
Detroit Economic Club
October 23, 1984

I'd like to start off my remarks today by offering my belated congratulations to baseball's new world champions, the Tigers. Coming from New York, I dimly remember the thrill of having home-town champs.

As many of you may know, it's also been some time since Washington had a professional baseball team. We do, however, have a pretty good amateur softball league made up from the various government agencies.

The only problem with the games is the pace. You see, first the catcher has to give the pitcher his signs in triplicate, and then the whole team votes on the pitch.

You might think -- it being exactly two weeks prior to the election -- that I am about to deliver a political speech. A campaign speech. A rip-snorter.

Well, I think the President has things pretty well in hand, right now. So, if I may, I'd like to talk about -- of all things to this group -- economics and government.

I went to Washington almost four years ago, leaving Wall Street behind after 35 years. But in those 35 years in New York I had many occasions to watch what was going on in Washington; wonder what was going on in Washington; and often, to worry about what was going on in Washington.

Now, I'll be the first to admit that my attentions at the time were focused mainly on how action, or inaction, in Washington would affect Wall Street.

But going to Washington myself, as a player, was an education. Suddenly I was in a position where my attention was focused on a much broader picture.

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Far-reaching issues, policies and programs -- which heretofore had served primarily for making conversation in the lunch room, or at the dinner table -- became the essence of my job.

What's different, however, is that the conversations we have in the Oval Office, or the Cabinet Room, count.

And realizing this, I have concluded, sometimes painfully, that all our conversations, our deliberations and our decisions need to pay heed to a much larger question.

And it is that larger question that I would like to talk about today. What is the proper role of government in an economy that we insist is a free market economy? What should government's role be? Indeed what can it be?

In general, I think there are four legitimate areas for government to pursue in a free economy and I think it's crucial they be pursued vigorously in the next four years in Washington.

First and perhaps above all, it is Washington's obligation to promote an environment that will assure sustained and significant economic growth with little or no inflation. That, of course, implies sound fiscal and monetary policies.

It is fair to ask if that is achievable. There are many cynics, for example, who believe that our forecast of 4 percent growth and 4 percent inflation is simply not realistic. And I must admit it's hard to see an answer these days, from both sides, that isn't suffused with political rhetoric.

But I think if we forget for a moment that this is a political year and simply look at the evidence, look at our past history, look at the current factors at play, we can draw some conclusions as to whether the projections are achievable.

To begin with, sustained non-inflationary growth, a major goal of our program, has been achieved in the past. From 1949 to 1959, in spite of two recessions, growth of real GNP averaged 3.9 percent (compounded) with 2.6 percent inflation (GNP deflator).

Between 1960 and 1968 growth averaged 4.6 percent and inflation 2.3 percent. Within that period, 1961 to 1966 saw growth averaging 5.4 percent and inflation at 2.1 percent.

I am convinced that sustained non-inflationary growth can be achieved in the future, given the proper government policies.

There is a qualitative as well as a quantitative side of the argument as well. Remember, just for a moment with me the decade from 1962 to 1972. The fact of the matter is our real growth in that period averaged 4 percent. In 1965 and '66 for instance, it was 6.0 percent; in 1970 it was -.2, but the overall average for the period was 4 percent. Our inflation was under 4 percent -- on the order of 3.5 percent. [deflator]

Think about those times for a moment. It was the final years of John Kennedy's presidency, Lyndon Johnson's presidency and Richard Nixon's first term.

We had some recessions -- including a big one in 1969 to 1970. We had the Vietnam War with all its negative and debilitating economic and social effects. We had the beginnings of the Great Society programs. We had inflation beginning to mount seriously.

We had the beginning of imports of major products, like automobiles, from abroad. We had the beginning of the breakdown of the monetary system as we then knew it. We went off the gold standard with a vengeance. And for those who are interested we had the stock market seesawing back and forth, with the Dow Jones Industrial Index ranging from around 600 to a high of around 1000.

And we had some of the worst years in Wall Street's history -- with firms failing left and right.

All in all, I think you will have to agree with me that they were more or less average years with a lot of good and bad scattered throughout the decade. And yet there are those who would ask you to believe that those years represent the peak, the absolute peak, of the American economy. I just don't buy it.

What I am suggesting is that far from being unrealistic our projections of 4 percent growth with about 4 percent inflation are quite achievable. The key of course is the promulgation and the practice of appropriate fiscal and monetary policies, and the promotion of our natural instincts to form new businesses, bring to market new products, provide new or better services, open up new jobs, and establish new industries.

If we keep incentives in the system, if we curtail the growth of federal spending, if our central bank supplies enough money and credit to allow the growth that the incentives are inspiring, yet not allow inflation to return, then we may even surprise ourselves as to how well we can do.

Now those are big "ifs." But it is important to note, and highly reassuring as well, that non-inflationary growth is a self-reinforcing process. Once achieved, it can trigger a sort of "virtuous circle" as opposed to the vicious circle of inflation-taxation-stagnation, which gripped the country a few years ago.

Let's be clear about this. This "virtuous circle" is in place now. The proper macroeconomic policies are in place now. And augmenting this are a number of other positive economic trends that presage strong performance for some years yet.

We have moderating wage increases, increasing productivity, and lower, stable commodity prices which promise to keep inflation down. We have the obvious benefits of a strong dollar which is bringing Americans a flood of relatively low-priced imports. And we have the hidden plus of that strong dollar -- which is the impetus for American industry to revamp, to modernize, to re-position itself for the growing, competitive world market.

Witness capital spending. It's running above 15 percent in the first seven quarters of this recovery. More than double the rate averaged in other post-Korean War recoveries. American industry is doing just what Europe and Japan did after World War II.

And this time, it's the United States which will have the newer industrial generation, In this decade and the next, it's the United States which will have the best plants and the best capacity in the world.

Given all this, given post-War economic experience, and given the reversal of the inconsistent, destabilizing and disincentive policies of the 1970s, we have every reason to believe that current growth and low inflation projections may well be modest.

And let's be clear about something else. It doesn't even take economics let alone politics, but a simple rule of arithmetic, to compute what economic growth implies for the budget.

Follow this: Federal spending is currently between one-fifth and one-fourth of GNP (24 percent in FY 1984). Consequently, each time the economy grows four or five percent more in real terms than Federal outlays, Federal spending as a share of GNP falls by one percentage point.

If we could hold the real growth of Federal spending to 1.5 percent (5.5 percent in nominal terms, assuming 4 percent inflation), and sustain real economic growth of four percent, then Federal spending would fall as a share of GNP by just over one percentage point every two years. By 1989, Federal spending would be just over 21 percent of GNP. Tax revenue at that time will be just under 20 percent of GNP.

In such a situation, Federal debt would be falling as a share of GNP and debt service would be falling as a share of the budget. This would help accelerate the trend toward budget balance in the years beyond.

Falling deficits through reduced spending and larger GNP would have several favorable effects. It would ease credit market conditions and help lower interest rates. Lower outlays and a broader tax base would enable us to raise more revenue at lower tax rates. Thus, growth of GNP helps to lower interest rates and tax rates, and to raise investment and reinforce growth.

Production of more goods and services in turn helps to hold down prices for any given money supply. Lower inflation helps hold down the rates and other costs, and promotes further real growth.

Now, by this time I'm sure you're way ahead of me and realize that this all resolves into one key question: can we hold the line on Federal spending? I believe the answer is yes. The problem is manageable. We do not need to cut spending to move toward budget balance, merely restrain its growth.

In my example, over five years, real outlays could grow by over 6 percent, or by over $64 billion in real 1984 dollars. In current dollars, outlays would rise by nearly 31 percent, or about $260 billion assuming 4 percent inflation.

Current dollar revenues are projected to increase by nearly $400 billion over the same period. Such a path of outlays and receipts would narrow the deficit to less than 1 percent of GNP by 1989.

These low spending growth rates are achievable given the political will and continued non-inflationary growth. With inflation continuing low, there is ample room for interest rates to fall, and for interest outlays to come down.

With growth continuing strong, employment will rise and poverty will fall. The fairest way to reduce Federal spending on the social safety net, the way we would all applaud, is for the unemployed and the poor not to require such aid because they are back at work, no longer in poverty, and sharing fully in the general prosperity.

That is the single best way I know to control spending. Indeed, I have to confess to you, it's the only lasting way I know.

A second major role of government in promoting the general welfare, and this is quite consistent with the first role, is simply to get out of the way. I don't think it is controversial any more to take cognizance of the fact that in a free market system intrusion of government through bureaucracies, through regulations, through administrative codes and laws, however well-intentioned, serve ultimately to the disadvantage of those in business and those who consume the products and services produced by the economy.

Please understand I am not advocating we dismantle every federal program. I am saying, however, that there are many many programs that have more than outlived their intent, and by their continuation are denying the benefits of competition.

And I don't think that this is a partisan comment. It was, for example, under the last Administration that airlines were deregulated, and we are continuing that policy.

Now, as Treasury Secretary, let me indulge myself and get a little specific here on one aspect of deregulation I am very much involved in.

We <u>are</u> hurtling towards deregulation of the financial services industry, but in a very haphazard and potentially dangerous manner. For two years the Congress has had this issue before them. For two years they have not acted -- while de facto deregulation continues to occur.

The Glass-Steagall Act is breaking down -- "non bank-banks" proliferate; real estate is being sold by investment banking firms; brokerage firms are selling annuities; you can write a check on a money market account virtually anywhere, and you can get "comprehensive financial planning" at a department store.

Market forces are tearing at the existing out-dated framework, while the industry -- and most importantly, consumers -- still wait for government to get out of the way, and let all participants compete for your business.

I think this is a shameful situation, but it's a classic case of government failing to provide one of its essential economic roles.

A third role I see for government in the economy involves a topic I'm sure is familiar to all of you, yet, quite frankly, one I cannot be too specific about at this point. It is the on-going Treasury study on comprehensive tax reform which will be submitted to the President in December. The government's role, of course, is to see to it that there are incentives in the system for savings, and investment, for encouragement to enrepreneurs and risk takers. How else can the government provide an environment for growth?

While I don't yet know what we will recommend, I can tell you some of the principles guiding our work. First is to meet the President's directives in his State of the Union address early this year that a reformed tax system be fairer, simpler and incentive-oriented.

Secondly, it has not been lost on any of us in Treasury that those nations that have been competing most effectively with our own industries in worldwide markets have tax systems that, without a doubt, far exceed ours in encouraging savings and investment and are not biased toward consumption. And yes, that does mean we are revisiting the very precepts that underly our national income and corporate tax systems -- including every layer of modification and addition that Americans have witnessed over a half century.

I can assure you this much now. The tax system that we recommend to the President will be in keeping with the larger purposes and objectives of a sound and beneficial tax system. And it is not being developed with an eye on any specific revenue amount. In that respect it will be neutral -- that is, it will raise the same revenues as the tax system in place now raises.

The last role I will discuss today is that of the Federal government as negotiator, if you will, for the American economy and its businesses and industries, and consumers in all the international markets.

I am referring here not just to goods and products, but services of all sorts and investments as well. Here I believe government's role is to assure to the best of our ability that the playing field is level.

This entails determining the proper protection or safeguarding of declining industry and the proper incentives to foster other industries. We have to walk a fine line here and remember that the key words are "proper" in relation to protection, and "incentives," not "policy," in relation to fostering growth.

This role also includes the development and refinement of our anti-dumping and countervailing duty laws as well as other unfair trade laws. It involves the improvement of international organizations like GATT to cover such things as agricultural products, services, technology and investments, and perhaps even labor itself. It concerns improving the structure of the international monetary system so that there is less volatility and uncertainty.

But I believe this role does not include any more intrusion by the Federal government to match the subsidies, or non-tariff barriers, instituted by some of our trading partners. In spite of subsidized farms, products and export sales, who is benefitting most from the freest and most open market in the world. I submit it is us.

I believe the best long range solution, in so far as government is concerned, lies in allowing all of our industries to be better able to compete, than trying to stave off the rest of the world with expedients that derive from putting government's hands in the taxpayers' pockets.

These four points, in my mind, basically constitute the proper economic role of government in society. There are others. Perhaps someone else's list would be different. Certainly, an entire speech could also be dedicated to the inappropriate economic role of government.

But if I might defer argument on these points, I would instead prefer to conclude with this thought:

Even though economics is by no means an exact science, there can be no such thing in Washington as merely economic policy. I have decided after four years that the old name of the dismal science was pretty accurate -- politico-economics.

And yet, that is as it should be. Free markets can only exist in free societies. And in free societies, democracies, all can raise their voice on every issue.

Yet, even in this environment some aspects of the foundation will always be bedrock solid.

There is our desire that everyone have the opportunity to share in economic prosperity. There is the recognition that it is American ingenuity, creativity, energy and entrepreneurship that really drives our economy.

There is our history of success and our unwillingness to accept failure in ourselves. And there is the American tradition of faith in ourselves and in our future.

All of these qualities, these values, so strongly evidenced in America, can assure that our economy continues to be a marvel and a model for the world.

And I share with you my deep conviction, after my time in this office: It can continue, if government's role is appropriately maintained. And that role never goes beyond the bounds that we set for it.

Thank you.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 23, 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 $13,200 million, to be issued November 1, 1984. This offering will provide about $550 million of new cash for the Treasury, as the maturing bills were originally issued in the amount of $12,654 million (including the 150-day cash management bills issued June 4, 1984, in the amount of $2,995 million). The two series offered are as follows:

91-day bills (to maturity date) for approximately $6,600 million, representing an additional amount of bills dated August 2, 1984, and to mature January 31, 1985 (CUSIP No. 912794 GR 9), currently outstanding in the amount of $6,650 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,600 million, to be dated November 1, 1984, and to mature May 2, 1985 (CUSIP No. 912794 HB 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 1, 1984. In addition to the maturing 13-week, 26-week, and 150-day cash management bills, there are $7,774 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 $2,214 million, and Federal Reserve Banks for their own account hold $2,613 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 $1,854 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-2893

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, October 29, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 1, 1984, in cash or other immediately-available funds or in Treasury bills maturing November 1, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, 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 October 23, 1984

RESULTS OF AUCTION OF 20-YEAR 1-MONTH TREASURY BONDS

The Department of the Treasury has accepted $4,005 million of $8,260 million of tenders received from the public for the 20-year 1-month bonds auctioned today. The bonds will be issued October 30, 1984, and mature November 15, 2004.

The interest rate on the bonds will be 11-5/8%. The range of accepted competitive bids, and the corresponding prices at the 11-5/8% interest rate are as follows:

	Yield	Price
Low	11.55%	100.554
High	11.75%	99.016
Average	11.69%	99.473

Tenders at the high yield were allotted 43%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 136,575	$ 6,575
New York	7,338,388	3,749,298
Philadelphia	2,106	2,106
Cleveland	22,317	22,317
Richmond	6,534	6,534
Atlanta	7,286	7,286
Chicago	571,273	85,573
St. Louis	27,595	27,593
Minneapolis	112	112
Kansas City	3,980	3,980
Dallas	138	138
San Francisco	143,111	92,861
Treasury	407	407
Totals	$8,259,822	$4,004,780

The $4,005 million of accepted tenders includes $184 million of noncompetitive tenders and $3,821 million of competitive tenders from the public.

R-2894

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

FOR IMMEDIATE RELEASE October 23, 1984

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of August 1984.

FFB holdings of obligations issued, sold, or guaranteed by other Federal agencies totaled $144.1 billion on August 31, 1984, posting a net increase of $0.7 billion from the level on July 31, 1984. This change included increases in holdings of agency assets of $0.3 billion and holdings of agency guaranteed debt of $0.4 billion. Holdings of agency debt issues decreased by less than $0.1 billion. FFB made 309 disbursements during the month.

Attached to this release are tables presenting FFB August loan activity, new FFB commitments to lend during August and FFB holdings as of August 31, 1984.

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R-2895

AUGUST 1984 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 #376	8/6	$ 240,000,000.00	8/15/84	11.005%	
Note #377	8/15	75,000,000.00	8/20/84	10.845%	
Note #378	8/15	35,000,000.00	8/23/84	10.845%	
Note #379	8/15	5,000,000.00	8/24/84	10.845%	
Note #380	8/15	310,000,000.00	8/27/84	10.845%	
Note #381	8/20	35,000,000.00	8/27/84	10.865%	
Note #382	8/20	20,000,000.00	9/1/84	10.865%	
Note #383	8/27	355,000,000.00	9/4/84	11.025%	
Note #384	8/31	130,000,000.00	9/10/84	11.215%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
Note #245	8/1	7,945,000.00	10/30/84	10.955%	
+Note #246	8/6	10,000,000.00	11/5/84	11.055%	
Note #247	8/7	1,000,000.00	9/17/84	11.085%	
+Note #248	8/15	5,000,000.00	9/14/84	10.845%	
Note #249	8/20	15,000,000.00	11/19/84	10.895%	
Note #250	8/30	100,000.00	12/31/84	11.325%	
+Note #251	8/31	5,000,000.00	10/5/84	11.215%	
Note #252	8/31	500,000.00	10/3/84	11.215%	
Note #253	8/31	15,000,000.00	11/29/84	11.215%	
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership					
	8/7	50,000,000.00	8/1/94	12.855%	13.268% ann.
	8/8	600,000,000.00	8/1/89	12.765%	13.172% ann.
	8/8	550,000,000.00	8/1/94	12.815%	13.226% ann.
	8/8	160,000,000.00	8/1/99	12.845%	13.257% ann.
	8/8	10,000,000.00	8/1/04	12.875%	13.289% ann.
	8/24	55,000,000.00	8/1/94	12.825%	13.236% ann.
	8/24	95,000,000.00	8/1/99	12.785%	13.194% ann.
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE					
Foreign Military Sales					
Egypt 5	8/1	4,856,235.80	6/20/13	12.995%	
Egypt 6	8/2	8,144,848.33	4/15/14	12.938%	
El Salvador 6	8/2	176,251.23	5/15/95	12.945%	
El Salvador 7	8/2	2,993,458.48	6/10/96	12.881%	
Israel 15	8/2	11,758,271.85	7/10/13	12.905%	
Israel 16	8/2	43,089,715.48	7/10/14	12.945%	
Greece 15	8/3	700,072.46	6/15/12	12.865%	
Philippines 10	8/3	118,250.81	7/15/92	12.375%	
Thailand 10	8/3	2,676,125.00	7/10/94	12.885%	
Morocco 11	8/6	370,241.37	9/8/95	12.735%	
Zaire 1	8/6	429,716.52	9/22/92	12.738%	
Ecuador 5	8/7	331,619.31	5/25/88	12.699%	
Egypt 5	8/7	309,270.10	6/20/13	12.825%	
Egypt 6	8/7	10,166,301.08	4/15/14	12.862%	
Bolivia 2	8/7	1,015,036.00	11/22/95	12.786%	
Ecuador 4	8/7	292,303.69	7/25/87	12.652%	
Greece 14	8/8	25,020.00	4/30/11	12.875%	
Turkey 14	8/9	978,232.83	11/30/12	12.785%	
Dominican Republic 7	8/10	750,000.00	9/10/95	12.745%	

+rollover

FEDERAL FINANCING BANK

AUGUST 1984 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)					
Israel 16	8/13	$ 6,513,504.78	7/10/14	12.815%	
Turkey 17	8/13	100,000.00	11/30/13	12.805%	
Somalia 4	8/13	479,715.35	11/30/12	12.753%	
Liberia 10	8/13	377,434.60	5/15/95	12.805%	
Egypt 6	8/13	704,292.00	4/15/14	12.805%	
Israel 16	8/14	9,465,546.35	7/10/14	12.885%	
Egypt 6	8/15	6,847,836.98	4/15/14	12.805%	
El Salvador 7	8/16	528,503.00	6/10/96	12.865%	
Jordan 10	8/16	45,000.00	3/10/92	11.895%	
Tunisia 16	8/16	434,317.96	2/4/96	12.895%	
Israel 8	8/17	62,050,000.00	9/1/09	12.766%	
Israel 16	8/17	6,926,018.00	7/10/14	12.835%	
Tunisia 16	8/20	15,000,000.00	2/4/96	12.842%	
El Salvador 7	8/20	97,647.35	6/10/96	12.845%	
Cameroon 6	8/22	733,459.10	3/15/89	11.748%	
Greece 14	8/22	3,032,789.89	4/30/11	12.678%	
Greece 15	8/22	2,267,894.92	6/15/12	12.745%	
Israel 16	8/22	8,416,810.96	7/10/14	12.722%	
Egypt 6	8/23	16,273,287.29	4/15/14	12.765%	
Philippines 10	8/23	1,402,094.44	7/15/92	12.265%	
Turkey 13	8/23	7,136,081.16	3/24/12	12.755%	
Peru 10	8/24	448,390.00	4/10/96	12.795%	
Zaire 1	8/27	502,964.00	9/22/92	12.815%	
Philippines 9	8/27	2,500,306.08	5/15/91	12.825%	
Egypt 6	8/29	4,484,968.60	4/15/14	12.935%	
El Salvador 7	8/29	665,229.20	6/10/96	12.975%	
Israel 16	8/29	9,186,500.00	7/10/14	12.750%	
Thailand 10	8/29	228,012.00	7/10/94	12.955%	
Thailand 12	8/29	66,697.00	3/20/96	12.925%	
Ecuador 5	8/30	171,897.05	5/25/88	12.855%	
Egypt 6	8/30	1,032,368.95	4/15/14	12.945%	
Israel 16	8/30	39,298,653.05	7/10/14	12.912%	
Kenya 11	8/30	2,118,500.00	5/15/95	12.985%	
Malaysia 7	8/30	3,706,500.00	3/10/88	11.685%	
Turkey 15	8/30	386,596.00	5/31/13	12.985%	
Turkey 16	8/30	30,837.00	7/15/13	12.975%	
El Salvador 7	8/31	1,117,650.00	6/10/96	13.004%	
Philippines 10	8/31	2,470,419.61	7/15/92	12.494%	
Thailand 6	8/31	97,543.00	9/20/85	12.165%	
DEPARTMENT OF ENERGY					
Synthetic Fuels Guarantees - Non-Nuclear Act					
Great Plains Gasification Assoc. #118	8/13	4,000,000.00	7/1/85	12.515%	
#119	8/20	9,500,000.00	7/1/85	12.495%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development					
*Mayaguez, PR	8/1	561,031.82	8/1/86	12.633%	13.032% ann.
*Pomona, CA	8/1	629,726.63	8/1/87	12.579%	12.975% ann.
*Newburgh, NY	8/1	395,000.00	8/1/89	12.967%	13.387% ann.
*Muskegon, WI	8/1	700,000.00	8/1/92	12.966%	13.386% ann.
*Maywood, CA	8/1	526,000.00	8/1/89	12.836%	13.248% ann.
St. Louis, MO	8/2	450,000.00	2/15/86	12.365%	12.747% ann.
Detroit, MI	8/3	1,877,000.00	9/1/84	11.015%	
Long Beach, CA	8/6	100,000.00	8/1/85	11.865%	12.212% ann.
Waukegan, IL	8/6	525,675.00	9/1/85	11.945%	12.302% ann.
Detroit, MI	8/8	1,544,482.82	9/1/85	12.035%	12.397% ann.
Indianapolis, IN	8/8	250,000.00	2/1/85	11.495%	

*maturity extension

FEDERAL FINANCING BANK

AUGUST 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Community Development (Cont'd)					
Long Beach, CA	8/8	$ 518,824.00	8/1/85	11.975%	12.327% ann.
Somerville, MA	8/9	75,000.00	5/1/85	11.695%	11.910% ann.
Utica, NY	8/10	219,000.00	5/1/85	11.615%	11.825% ann.
St. Louis, MO	8/10	750,000.00	2/15/86	12.285%	12.662% ann.
*Lynn, MA	8/15	604,301.00	8/15/90	12.666%	13.067% ann.
*San Buenaventura, CA	8/15	1,000,000.00	8/15/90	12.666%	13.067% ann.
*Baldwin Park, CA	8/15	622,100.00	8/15/90	12.666%	13.067% ann.
Birmingham, AL	8/17	375,000.00	9/1/03	12.827%	13.238% ann.
Sacramento, CA	8/17	148,714.22	2/1/85	11.325%	
St. Petersburg, FL	8/23	75,000.00	12/1/85	12.155%	12.524% ann.
Baldwin Park, CA	8/29	1,079,000.00	10/1/84	11.225%	
Albany Ind. Dev. Ag., NY	8/29	170,000.00	7/1/03	12.913%	13.330% ann.
Long Beach, CA	8/29	140,000.00	8/1/85	12.025%	12.357% ann.
St. Louis, MO	8/29	2,000,000.00	2/15/86	12.455%	12.843% ann.
Albany Ind. Dev. Ag., NY	8/31	75,000.00	7/1/03	12.922%	13.339% ann.
San Antonio, TX	8/31	478,000.00	9/1/04	12.908%	13.325% ann.
San Antonio, TX	8/31	328,334.00	9/1/04	12.908%	13.325% ann.
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	8/20	7,900,000.00	10/1/92	12.760%	13.167% ann.
DEPARTMENT OF THE NAVY					
Defense Production Act					
Gila River Indian Community	8/17	164,053.57	10/1/92	12.800%	12.062% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
*Arkansas Electric #97	8/1	1,106,000.00	1/31/85	11.525%	11.327% qtr.
*Arkansas Electric #142	8/1	3,782,000.00	1/31/85	11.525%	11.327% qtr
*Deseret G&T #211	8/1	21,332,000.00	8/1/86	12.695%	12.500% qtr.
Northwest Electric #176	8/2	500,000.00	8/4/86	12.615%	12.422% qtr.
*Central Electric #131	8/2	275,000.00	8/4/86	12.615%	12.422% qtr.
*Saluda River Electric #186	8/2	2,350,000.00	9/30/86	12.645%	12.451% qtr.
*South Mississippi Electric #171	8/3	1,900,000.00	8/4/86	12.615%	12.422% qtr.
*North Carolina Electric #185	8/3	6,160,000.00	9/30/86	12.645%	12.451% qtr.
*South Mississippi Electric #90	8/6	279,000.00	9/30/86	12.433%	12.246% qtr.
*Kansas Electric #216	8/6	1,488,000.00	9/30/86	12.445%	12.257% qtr.
*Wolverine Power #101	8/6	164,000.00	8/6/87	12.515%	12.325% qtr.
*South Mississippi Electric #3	8/6	221,000.00	9/30/86	12.431%	12.244% qtr.
*Big Rivers Electric #91	8/6	1,850,000.00	9/30/86	12.445%	12.257% qtr.
*Sunflower Electric #174	8/6	2,500,000.00	8/6/86	12.425%	12.238% qtr.
Big Rivers Electric #179	8/6	1,850,000.00	9/30/86	12.445%	12.257% qtr.
South Mississippi Electric #90	8/6	391,000.00	9/30/86	12.433%	12.246% qtr.
Tex-La Electric #208	8/7	769,000.00	8/7/86	12.545%	12.354% qtr.
*Colorado Ute Electric #78	8/8	1,205,000.00	9/30/86	12.542%	12.351% qtr.
Saluda River Electric #271	8/8	700,000.00	9/30/86	12.555%	12.364% qtr.
*Seminole Electric #141	8/8	1,438,000.00	8/8/86	12.545%	12.354% qtr.
*Western Farmers Electric #220	8/10	10,800,000.00	8/11/86	12.455%	12.267% qtr.
*Wabash Valley Power #206	8/10	386,000.00	8/11/86	12.455%	12.267% qtr.
*Wabash Valley Power #104	8/10	5,591,000.00	8/11/86	12.455%	12.267% qtr.
*Wolverine Power #101	8/10	131,000.00	8/11/86	12.455%	12.267% qtr.
*Wolverine Power #101	8/10	2,878,000.00	8/11/86	12.455%	12.267% qtr.
Wabash Valley Power #206	8/10	20,000.00	8/11/86	12.455%	12.267% qtr.
Deseret G&T #211	8/13	4,449,000.00	9/30/86	12.485%	12.296% qtr.
*Arkansas Electric #221	8/13	6,421,000.00	1/31/85	11.325%	11.149% qtr.
*Kansas Electric #216	8/13	1,050,000.00	8/13/86	12.475%	12.286% qtr.
*Brazos Electric #144	8/13	1,270,000.00	8/13/87	12.535%	12.345% qtr.
*Cajun Electric #147	8/13	40,000,000.00	8/13/86	12.475%	12.286% qtr.
Cajun Electric #263	8/15	20,000,000.00	9/30/86	12.485%	12.296% qtr.
*Western Illinois Power #162	8/15	2,640,000.00	8/15/87	12.545%	12.354% qtr.
*Oglethorpe Power #150	8/15	10,006,000.00	8/6/87	12.525%	12.335% qtr.
*Oglethorpe Power #74	8/15	5,531,000.00	8/6/87	12.525%	12.335% qtr.

*maturity extension

FEDERAL FINANCING BANK

AUGUST 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
*United Telephone #25	8/15	$ 1,231,000.00	12/31/12	12.765%	12.568% qtr.
New Hampshire Electric #270	8/15	1,061,000.00	9/30/86	12.485%	12.296% qtr.
Old Dominion Electric #267	8/15	209,000.00	9/30/86	12.477%	12.288% qtr.
Dairyland Power #161	8/15	2,496,000.00	8/15/86	12.465%	12.277% qtr.
Dairlyand Power #173	8/15	24,000.00	8/15/86	12.465%	12.277% qtr.
Quaker State Telephone #92	8/16	3,000,000.00	12/31/18	12.763%	12.566% qtr.
*East Kentucky Power #140	8/16	430,000.00	8/18/86	12.525%	12.335% qtr.
*East Kentucky Power #188	8/16	4,069,000.00	8/18/86	12.525%	12.335% qtr.
*New Hampshire Electric #192	8/16	1,065,000.00	8/18/86	12.525%	12.335% qtr.
*Seminole Electric #141	8/17	2,678,000.00	8/17/86	12.545%	12.354% qtr.
*Seminole Electric #141	8/20	2,580,000.00	8/20/86	12.545%	12.354% qtr.
*Seminole Electric #141	8/20	14,536,000.00	8/20/86	12.545%	12.354% qtr.
*Western Illinois Power #225	8/20	2,203,000.00	8/20/86	12.545%	12.354% qtr.
*Brazos Electric #108	8/20	903,000.00	8/20/86	12.545%	12.354% qtr.
*Brazos Electric #230	8/20	8,409,000.00	8/20/86	12.545%	12.354% qtr.
*South Texas Electric #200	8/20	1,005,000.00	8/20/86	12.545%	12.354% qtr.
*Associated Electric #132	8/20	12,500,000.00	8/20/86	12.545%	12.354% qtr.
*Big Rivers Electric #58	8/20	40,000.00	9/30/86	12.555%	12.364% qtr.
*Big Rivers Electric #91	8/20	910,000.00	9/30/86	12.555%	12.364% qtr.
*Big Rivers Electric #136	8/20	182,000.00	9/30/86	12.555%	12.364% qtr.
*Big Rivers Electric #143	8/20	30,000.00	9/30/86	12.555%	12.364% qtr.
*Oglethorpe Power #150	8/20	5,153,000.00	8/20/87	12.565%	12.374% qtr.
*Oglethorpe Power #74	8/20	15,526,000.00	8/20/87	12.565%	12.374% qtr.
*Central Louisiana Telephone #34	8/20	3,191,000.00	8/20/86	12.545%	12.354% qtr.
Big Rivers Electric #179	8/21	2,000,000.00	9/30/86	12.565%	12.374% qtr.
*Plains Electric G&T #158	8/21	6,459,000.00	8/21/86	12.545%	12.354% qtr.
*San Miguel Electric #110	8/22	7,759,000.00	8/22/86	12.535%	12.345% qtr.
Tel. Utilities of Oregon #256	8/22	2,361,000.00	9/30/86	12.535%	12.345% qtr.
*Big Rivers Electric #136	8/23	84,000.00	9/30/86	12.585%	12.393% qtr.
*Big Rivers Electric #143	8/23	157,000.00	9/30/86	12.585%	12.393% qtr.
*Big Rivers Electric #179	8/23	26,163,000.00	12/31/84	11.145%	11.054% qtr.
Oglethorpe Power #246	8/23	20,129,000.00	8/24/87	12.605%	12.412% qtr.
Plains Electric G&T #215	8/23	411,000.00	12/31/18	12.612%	12.419% qtr.
Kansas Electric #216	8/23	884,000.00	9/30/86	12.585%	12.393% qtr.
*Basin Electric #137	8/24	9,853,000.00	8/25/86	12.575%	12.383% qtr.
*Seminole Electric #141	8/24	13,253,272.22	8/25/86	12.575%	12.383% qtr.
*East Kentucky Power #73	8/24	5,782,000.00	9/30/86	12.588%	12.396% qtr.
*Western Farmers Electric #133	8/27	9,759,044.00	8/27/86	12.575%	12.383% qtr.
*East Kentucky Power #140	8/27	640,000.00	8/27/86	12.535%	12.345% qtr.
*South Texas Electric #109	8/27	1,400,000.00	8/27/86	12.535%	12.345% qtr.
*Arkansas Electric #221	8/27	5,209,000.00	1/31/85	11.355%	
*Wabash Valley Power #206	8/27	477,000.00	8/27/86	12.535%	12.345% qtr.
*Basin Electric #87	8/29	1,071,000.00	8/31/87	12.715%	12.519% qtr.
*Basin Electric #137	8/29	25,000,000.00	8/31/87	12.715%	12.519% qtr.
Kansas Electric #216	8/29	2,500,000.00	9/30/86	12.675%	12.480% qtr.
French Broad Electric #245	8/29	356,000.00	9/30/86	12.675%	12.480% qtr.
North Carolina Electric #268	8/29	10,520,000.00	9/30/86	12.675%	12.480% qtr.
*Basin Electric #137	8/30	25,000,000.00	9/2/86	12.695%	12.500% qtr.
*Central Electric #131	8/30	380,000.00	9/2/86	12.695%	12.500% qtr.
*North Carolina Electric #185	8/30	13,097,000.00	9/30/86	12.695%	12.500% qtr.
East River Electric #117	8/30	2,928,000.00	9/2/86	12.695%	12.500% qtr.
Kamo Electric #148	8/31	423,000.00	9/2/86	12.695%	12.500% qtr.
Kamo Electric #209	8/31	4,177,000.00	9/2/86	12.695%	12.500% qtr.
Kamo Electric #266	8/31	1,903,000.00	9/2/86	12.695%	12.500% qtr.
Basin Electric #272	8/31	166,000.00	9/2/86	12.691%	12.496% qtr.
Arkansas Electric #97	8/31	1,683,000.00	9/2/86	12.695%	12.500% qtr.
*Basin Electric #87	8/31	10,000.00	9/2/86	12.695%	12.500% qtr.
Allegheny Electric #93	8/31	3,199,000.00	9/30/86	12.686%	12.491% qtr.
Allegheny Electric #175	8/31	4,940,000.00	8/10/87	12.745%	12.548% qtr.
Allegheny Electric #175	8/31	5,115,000.00	8/10/88	12.905%	12.703% qtr.

*maturity extension

FEDERAL FINANCING BANK

AUGUST 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
Business Dev. Corp. of Nebraska	8/8	$ 34,000.00	8/1/99	12.857%	
CCD Business Dev. Corp.	8/8	46,000.00	8/1/99	12.857%	
Verd-Ark-CA Dev. Corp.	8/8	57,000.00	8/1/99	12.857%	
The St. Louis Local Dev. Co.	8/8	72,000.00	8/1/99	12.857%	
Phoenix Local Dev. Corp.	8/8	75,000.00	8/1/99	12.857%	
River East Progress, Inc.	8/8	91,000.00	8/1/99	12.857%	
Minneapolis 503 Econ. Dev. Co.	8/8	94,000.00	8/1/99	12.857%	
Gr. Muskegon Indus. Fund, Inc.	8/8	96,000.00	8/1/99	12.857%	
Catawba Regional Dev. Corp.	8/8	105,000.00	8/1/99	12.857%	
Gr. Muskegon Indus. Fund, Inc.	8/8	108,000.00	8/1/99	12.857%	
Providence Indus. Dev. Corp.	8/8	130,000.00	8/1/99	12.857%	
North Texas Cert. Dev. Corp.	8/8	152,000.00	8/1/99	12.857%	
Commonwealth Sm. Bus. Dev. Corp.	8/8	187,000.00	8/1/99	12.857%	
Albany Local Dev. Corp.	8/8	208,000.00	8/1/99	12.857%	
River East Progress, Inc.	8/8	282,000.00	8/1/99	12.857%	
Commonwealth Sm. Bus. Dev. Corp.	8/8	293,000.00	8/1/99	12.857%	
Catawba Regional Dev. Corp.	8/8	390,000.00	8/1/99	12.857%	
Neuse River Dev. Auth., Inc.	8/8	498,000.00	8/1/99	12.857%	
Inglewood Dev. Company	8/8	500,000.00	8/1/99	12.857%	
Columbus Countywide Dev. Corp.	8/8	30,000.00	8/1/04	12.884%	
Urban Business Dev. Corp.	8/8	35,000.00	8/1/04	12.884%	
BEDCO Development Corp.	8/8	46,000.00	8/1/04	12.884%	
Nine County Dev., Inc.	8/8	49,000.00	8/1/04	12.884%	
Alabama Community Dev. Corp.	8/8	50,000.00	8/1/04	12.884%	
Alabama Community Dev. Corp.	8/8	50,000.00	8/1/04	12.884%	
The St. Louis Local Dev. Co.	8/8	52,000.00	8/1/04	12.884%	
The St. Louis Local Dev. Co.	8/8	57,000.00	8/1/04	12.884%	
Enterprise Development Corp.	8/8	57,000.00	8/1/04	12.884%	
Rural Missouri, Incorporated	8/8	73,000.00	8/1/04	12.884%	
Crossroads EDC of St. Charles	8/8	91,000.00	8/1/04	12.884%	
The St. Louis Local Dev. Co.	8/8	120,000.00	8/1/04	12.884%	
Phoenix Local Dev. Corp.	8/8	120,000.00	8/1/04	12.884%	
San Diego County Loc. Dev. Corp.	8/8	125,000.00	8/1/04	12.884%	
San Diego County Loc. Dev. Corp.	8/8	130,000.00	8/1/04	12.884%	
San Diego County Loc. Dev. Corp.	8/8	138,000.00	8/1/04	12.884%	
The St. Louis Local Dev. Corp.	8/8	138,000.00	8/1/04	12.884%	
The Jacksonville L.D.C., Inc.	8/8	139,000.00	8/1/04	12.884%	
HEDCO Local Development Corp.	8/8	142,000.00	8/1/04	12.884%	
Cert. Dev. Co. of Mississippi	8/8	148,000.00	8/1/04	12.884%	
The St. Louis County L.D.C.	8/8	149,000.00	8/1/04	12.884%	
Gr. Bakersfield Loc. Dev. Corp.	8/8	152,000.00	8/1/04	12.884%	
Commonwealth Sm. Bus. Dev. Corp.	8/8	157,000.00	8/1/04	12.884%	
Brattleboro Dev. Credit Corp.	8/8	170,000.00	8/1/04	12.884%	
North Texas Cert. Dev. Corp.	8/8	183,000.00	8/1/04	12.884%	
Cleveland Citywide Dev. Corp.	8/8	185,000.00	8/1/04	12.884%	
The St. Louis Local Dev. Co.	8/8	200,000.00	8/1/04	12.884%	
Hamilton County Dev. Co., Inc.	8/8	201,000.00	8/1/04	12.884%	
Phoenix Local Dev. Corp.	8/8	208,000.00	8/1/04	12.884%	
Jacksonville Loc. Dev. Co., Inc.	8/8	216,000.00	8/1/04	12.884%	
Area Investment and Dev. Corp.	8/8	229,000.00	8/1/04	12.884%	
Louisville Econ. Dev. Corp.	8/8	236,000.00	8/1/04	12.884%	
BEDCO Development Corp.	8/8	257,000.00	8/1/04	12.884%	
Rural Enterprises, Inc.	8/8	265,000.00	8/1/04	12.884%	
Alabama Community Dev. Corp.	8/8	270,000.00	8/1/04	12.884%	
Neuse River Dev. Auth., Inc.	8/8	315,000.00	8/1/04	12.884%	
Centralina Dev. Corp., Inc.	8/8	315,000.00	8/1/04	12.884%	
Alabama Community Dev. Corp.	8/8	336,000.00	8/1/04	12.884%	
E.C.I.A. Business Growth, Inc.	8/8	384,000.00	8/1/04	12.884%	
Middle Flint Area Dev. Corp.	8/8	420,000.00	8/1/04	12.884%	
Onondaga Indus. Dev. Second Corp	8/8	497,000.00	8/1/04	12.884%	
Columbus Countywide Dev. Corp.	8/8	37,000.00	8/1/09	12.883%	
San Diego County Loc. Dev. Corp.	8/8	44,000.00	8/1/09	12.883%	
Lake County Economic Dev. Corp.	8/8	65,000.00	8/1/09	12.883%	

FEDERAL FINANCING BANK

AUGUST 1984 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)					
Eastern Minnesota Ec. Corp.	8/8	$ 67,000.00	8/1/09	12.883%	
Texas Cert. Dev. Co., Inc.	8/8	83,000.00	8/1/09	12.883%	
Louisville Ec. Dev. Corp.	8/8	97,000.00	8/1/09	12.883%	
Columbus Countywide Dev. Corp.	8/8	111,000.00	8/1/09	12.883%	
Columbus Countywide Dev. Corp.	8/8	116,000.00	8/1/09	12.883%	
Columbus Countywide Dev. Corp.	8/8	133,000.00	8/1/09	12.883%	
Texas Cert. Dev. Co., Inc.	8/8	141,000.00	8/1/09	12.883%	
Greater Southwest Kansas CDC	8/8	143,000.00	8/1/09	12.883%	
Bay Colony Dev. Corp.	8/8	179,000.00	8/1/09	12.883%	
New Haven Community Inv. Corp.	8/8	187,000.00	8/1/09	12.883%	
Lompoc Development Corp.	8/8	202,000.00	8/1/09	12.883%	
San Diego County Loc. Dev. Corp.	8/8	206,000.00	8/1/09	12.883%	
Bay Colony Dev. Corp.	8/8	210,000.00	8/1/09	12.883%	
Bay Area Employment Dev. Co.	8/8	224,000.00	8/1/09	12.883%	
Washington Community Dev. Corp.	8/8	229,000.00	8/1/09	12.883%	
Evergreen Com. Dev. Assoc.	8/8	253,000.00	8/1/09	12.883%	
Pennyrile Area Dev. Dis., Inc.	8/8	262,000.00	8/1/09	12.883%	
Rural Missouri, Inc.	8/8	270,000.00	8/1/09	12.883%	
San Diego County L.D.C.	8/8	287,000.00	8/1/09	12.883%	
Bar Area Bus. Dev. Co.	8/8	300,000.00	8/1/09	12.883%	
North Shore Bus. Finance Corp.	8/8	348,000.00	8/1/09	12.883%	
Orig. Aurora & Colorado Dev. Co.	8/8	365,000.00	8/1/09	12.883%	
Gr. Salt Lake Bus. District	8/8	376,000.00	8/1/09	12.883%	
Bay Area Bus. Dev. Co.	8/8	420,000.00	8/1/09	12.883%	
Fargo-Cass County I.D.C.	8/8	420,000.00	8/1/09	12.883%	
Bay Colony Dev. Corp.	8/8	427,000.00	8/1/09	12.883%	
Wisconsin Bus. Dev. Fin. Corp.	8/8	449,000.00	8/1/09	12.883%	
Wisconsin Bus. Dev. Fin. Corp.	8/8	500,000.00	8/1/09	12.883%	
River East Progress, Inc.	8/8	500,000.00	8/1/09	12.883%	
Nevada State Dev. Corp.	8/8	500,000.00	8/1/09	12.883%	
Bay Area Bus. Dev. Co.	8/8	500,000.00	8/1/09	12.883%	
Small Business Investment Company Debentures					
North Star Ventures, Inc.	8/22	1,000,000.00	8/1/87	12.575%	
Frontenac Capital Corp.	8/22	1,000,000.00	8/1/91	12.865%	
Interstate Capital Co., Inc.	8/22	500,000.00	8/1/94	12.825%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-84-13	8/31	515,884,127.71	11/30/84	11.245%	
DEPARTMENT OF TRANSPORTATION					
Section 511—4R Act					
Milwaukee Road #511-2	8/17	107,611.00	6/30/06	12.836	

FEDERAL FINANCING BANK
August 1984 Commitments

BORROWER	GUARANTOR	AMOUNT	EXPIRES	MATURITY
Botswana	DOD	$ 7,000,000	7/25/86	7/25/92
Colombia	DOD	17,500,000	9/5/85	9/5/91
Egypt	DOD	537,000,000	7/31/86	7/31/14
Greece	DOD	500,000,000	8/25/86	8/25/14
Israel	DOD	600,000,000	8/25/86	8/25/14
Lebanon	DOD	15,000,000	1/21/86	1/25/96
Morocco	DOD	38,750,000	5/30/86	5/31/96
Thailand	DOD	20,000,000	9/5/86	9/5/96
Pittsburgh, PA	HUD	165,000	5/1/85	5/1/04
Corn Belt Power	REA	23,583,000	8/28/91	12/31/17

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	August 31, 1984	July 31, 1984	Net Change 8/1/84-8/31/84	Net Change—FY 1984 10/1/83-8/31/84
On-Budget Agency Debt				
Tennessee Valley Authority	$ 13,305.0	$ 13,345.0	$ -40.0	$ 190.0
Export-Import Bank	15,563.4	15,563.4	-0-	887.5
NCUA-Central Liquidity Facility	195.0	170.5	24.5	150.8
Off-Budget Agency Debt				
U.S. Postal Service	1,087.0	1,087.0	-0-	-67.0
U.S. Railway Association	51.3	51.3	-0-	-73.4
Agency Assets				
Farmers Home Administration	59,196.0	58,856.0	340.0	2,505.0
DHHS-Health Maintenance Org.	116.1	116.1	-0-	-2.7
DHHS-Medical Facilities	132.0	132.0	-0-	-11.7
Overseas Private Investment Corp.	11.0	11.0	-0-	-5.3
Rural Electrification Admin.-CBO	3,467.5	3,467.5	-0-	-0-
Small Business Administration	40.6	40.9	-.3	-7.9
Government-Guaranteed Lending				
DOD-Foreign Military Sales	16,976.4	16,684.2	292.2	2,683.0
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loan Guarantees	4.3	4.3	-0-	-40.7
DOE-Non-Nuclear Act (Great Plains)	1,276.0	1,262.5	13.5	390.5
DHUD-Community Dev. Block Grant	224.0	219.8	4.2	46.7
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,178.5	2,178.5	-0-	111.7
General Services Administration	413.3	413.3	-0-	-3.9
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	28.7	28.7	-0-	-0.4
NASA-Space Communications Co.	916.1	908.2	7.9	-31.2
DON-Defense Production Act	2.9	2.8	0.2	1.9
Rural Electrification Admin.	20,741.7	20,670.9	70.8	1,802.8
SBA-Small Business Investment Cos.	854.8	861.1	-6.3	50.4
SBA-State/Local Development Cos.	335.7	317.2	18.5	188.0
TVA-Seven States Energy Corp.	1,539.5	1,523.6	15.9	121.0
DOT-Amtrak	-0-	-0-	-0-	-880.0
DOT-Section 511	159.5	159.4	0.1	-24.1
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 144,062.7	$ 143,321.6	$ 741.1	$ 7,980.9

*figures may not total due to rounding

TREASURY NEWS

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

Remarks by the Honorable Beryl W. Sprinkel
Under Secretary for Monetary Affairs
United States Treasury Department
before the
Japan Society, New York

Impact of Internationalization of the Yen and Japanese Financial Liberalization

Thursday, October 25, 1984

It is a pleasure to be here at the Japan Society to discuss "Japan's Changing Financial Structure." As you know, I spent many long hours earlier this year discussing this subject with my colleagues from the Japanese Ministry of Finance. Quite frankly, there were moments during our discussions when I was more struck by the "structure" of Japan's financial markets than by the fact that they were "changing." However, I think the Japanese financial system is undergoing fundamental changes which have important consequences for Japan, its bilateral relationship with the United States and the international financial system. And I am very pleased to have an opportunity to share my thoughts on these matters with you today.

Let me begin by explaining how the discussions on Japanese capital markets came about. The Administration has been concerned about exchange rate issues since first coming to office. During his trip to Tokyo last November, President Reagan conveyed his continuing deep concern about Japan's capital market policies and the value of the yen to President Nakasone. Following their discussions, the two leaders announced their "mutual commitment toward specific steps to achieve open capital markets [to] allow the yen to reflect more fully Japan's underlying political stability and economic strength as the second largest economy in the free world."

Treasury Secretary Regan and Finance Minister Takeshita consulted further on the desirability of liberalizing Japan's domestic market and increasing the international use of the yen. Agreeing that further progress was required, the Ministers asked Vice Finance Minister Oba and me to co-chair a Working Group of financial authorities from the U.S. Treasury and the Japanese Ministry of Finance. They charged us with monitoring U.S. and Japanese progress in implementing a number of agreed measures announced in November and with developing additional steps to internationalize the yen and liberalize Japan's domestic capital markets.

R-2896

After six intensive negotiating sessions between February and May, the Working Group reached agreement on the "Report on Yen/Dollar Exchange Rate Issues". This report, which was released by Treasury Secretary Regan and Japanese Finance Minister Takeshita on May 29, contained a series of agreed measures designed to: increase the use of the yen internationally, liberalize Japan's domestic capital markets, and improve the access of foreign financial institutions to the Japanese market.

Those who are familiar with the Japanese financial system will recognize that this agreement may mark the beginning of a new era in Japanese financial policy. Although some liberalization was already underway before our discussions took place, the Ministry of Finance's modus operandi remained essentially to control, regulate and give "guidance." This report lays the basis for a fundamentally new approach: letting market forces influence investor and borrower behavior.

I would like to outline the thinking behind this agreement and discuss its effect on the U.S.-Japan bilateral economic relationship, as well as its international implications.

Background to the Negotiations

As the title of our report suggests, an important incentive to delve into these matters was our concern about the yen/dollar exchange rate. The Administration has been concerned about the yen/dollar rate since first coming to office. It was clear that the Japanese authorities were not directly depressing the value of their currency. However, it was equally apparent that the yen did not reflect the underlying strength of the Japanese economy.

Since the 1940s, Japan has been the fastest growing industrialized country. In 1953 the Japanese economy accounted for about 6 percent of the aggregate GNP of industrialized countries; last year its share had risen to 14 percent. Japan is now the second largest Western economy.

However, the yen has yet to assume similar importance in international transactions. For example, only about 3-1/2 percent of the world's official reserves were denominated in yen last year. In addition, only a small percentage of Japan's trade is paid for in yen. A mere forty percent of Japanese exports are denominated in national currency, compared to about 90 percent of U.S. exports and 60-85 percent of the exports of major European countries. Only about three percent of Japanese imports denominated in yen, versus 70-85 percent of U.S. imports in domestic currency and 30-45 percent for major European countries. The dearth of Euroyen bond issues is still another example. In contrast to the large Eurobond markets in other major currencies, only a handful of Euroyen bond issues are made each year.

We concluded that Japan's financial policies were an important factor in preventing the yen from becoming the strong international currency befitting the Japanese economy. As many of you are aware, Japan's domestic capital market has been highly regulated over the years. For example, most interest rates have been controlled, the activities of Japanese financial institutions have been closely circumscribed, access to the Japanese bond market has been curtailed, and the international use of the yen has been restricted. Because of these and other limitations, such as the absence of a free Euroyen market, potential investors have not had access to the broad range of attractive assets which is available in other currencies. As a result, there has been little incentive for foreigners to hold assets in yen and relatively little demand for yen. We believe this is an important factor in the yen's weakness on the international exchange markets.

We were also concerned about the broader impact of Japan's policies on the international economic system. My long study of markets has led me to conclude that allowing supply and demand to determine prices is generally the most effective way to ensure that resources are allocated most efficiently. In response to the free movement of prices, new factories are opened, old ones are closed, and labor moves from one job to another. Production is maximized along the lines which people prefer.

The same applies to the capital markets. If, for example, interest rates are not permitted to move freely, or if capital controls are imposed, funds will not be allocated in the most efficient manner. This is not simply a matter of concern for the domestic authorities. In today's highly interdependent world, the policies of one government are quickly transmitted to the rest of the world, affecting the allocation of resources worldwide. Thus, financial market policies are an important international concern.

Yen/Dollar Report

As we examined these problems more closely, we identified three areas where we thought changes in Ministry of Finance policy were essential: in the liberalization of Japan's domestic capital market; in the development of a free Euroyen market; and in freer access to the Japanese market for foreign financial institutions. The final Yen/Dollar Report contained agreement on major steps in all three areas.

One of our primary concerns has been the liberalization of the domestic capital market. Our interest in this area is twofold. First, we believe it is important to increase the depth and breadth of market for yen assets. In addition, we hope to improve the efficiency of resource allocation in Japan and the rest of the world. On both counts, we considered it essential to eliminate interest rate ceilings and allow interest rates to be determined by market forces.

Under the terms of the agreement, interest rate ceilings on large deposits will be removed over the next two to three years. In addition, by April 1985 banks will be allowed to sell new types of deposit instruments in large denominations and with market interest rates. Restrictions will also be eased on the issue of domestic CDs. Among other measures to increase the depth and breadth of the domestic market, Japan has agreed to allow qualified foreign banks with offices in Japan to trade GOJ bonds. It has also agreed to:

- -- remove non-prudential limits on overseas lending from Japan;
- -- develop a plan for establishing a Banker's Acceptance market; and,
- -- eliminate swap limitations, thereby enabling foreign banks to increase their funding sources in yen.

We also attach great importance to development of Euroyen market, since in our view it offers the most direct way of establishing a market governed by market forces that will provide foreign investors with attractive assets in yen. In the Yen/Dollar Report, the Ministry of Finance announced the basic commitments and decisions necessary to allow for the development of Euroyen bond and banking markets, where non-Japanese can freely invest in or borrow a range of yen-denominated instruments.

Specifically, in the Euroyen bond market, the number and types of issuers of Euroyen bonds will be expanded significantly effective December 1, 1984, with the result that any borrower meeting certain credit criteria can issue. The criteria initially applied will parallel those in the Samurai market -- that is, the domestic Japanese market for foreign yen bond issues. It is particularly important that for the first time non-Japanese corporations will be able to issue yen-denominated Eurobonds.

As of April 1, 1985, the credit criteria will be liberalized to permit any borrower rated AA or better, as well as a reasonable portion of A-rated corporations, to issue such bonds. There will be no restrictions on these corporations, or any other foreign issuers of Euroyen bonds, with regard to the number or size of issues, and no requirement to use the Samurai market as a pre-requisite for issuing Euroyen bonds. In addition, all guidance, restrictions or requirements on the choice of lead managers of Euroyen bond issues by both Japanese residents and non-residents will be removed, effective December 1, 1984. We believe these characteristics can provide the framework for the development over time of a fully functioning Euroyen bond market.

Another important aspect of the development of a Euroyen market is the development of a Euroyen banking market. Two major steps are being taken toward this end. First, by the end of 1984

foreign and Japanese banks will be authorized to issue short-term negotiable Euroyen certificates of deposit from their offices outside of Japan. This will provide an important funding base to the Euroyen banking market, as well as an attractive short-term investment instrument. As with the Euroyen bond market, the report spells out the characteristics of this market, stating clearly the absence of any restrictions except for a maximum maturity of six months, and a prohibition on sale to Japanese residents.

On the lending side, Japanese and non-Japanese banks were free to extend Euroyen loans to non-residents, as of June 1, 1984. There are no limits on the amount or timing, and no prior approval is required. Euroyen loans by Japanese banks must have a maturity of one year or less, but we understand that no maturity limitations will apply to Euroyen lending by non-Japanese banks. Thus, we believe that there is considerable potential under these new policies for the development of a major Euroyen banking market.

The final section of the report is intended to improve the access of foreign financial institutions to the Japanese market. This is important for two reasons. First, greater access for foreign firms will help ensure that foreign investors have access to Japanese assets; this will further our goal of increasing the international use of the yen. It is also consistent with the principle of "national treatment", to which both the United States and Japan are committed. This means that U.S. firms in Japan are to be treated the same way as Japanese firms in Japan, just as we treat U.S. and foreign firms equally in the United States.

An important means of improving the access of foreign firms to the Japanese market is to increase the "transparency" of Ministry of Finance regulatory policies. Previously, the Ministry's system of informal guidance created great uncertainty for foreign firms and sometimes appeared to discriminate against them. To correct this impression, the Ministry of Finance has made a general commitment to operate in a more transparent fashion. To carry out this pledge, it has already made a number of announcements clarifying its regulatory policies and publicizing the equal treatment provided to foreign firms.

The Yen/Dollar Agreement also contains specific commitments that will provide foreign firms new competitive opportunities. Beginning next year, qualified foreign banks will be licensed for the first time to manage Japanese trust funds. Previously, this business has been the exclusive domain of Japanese firms. In addition, the Ministry of Finance has requested the Tokyo Stock Exchange to study ways of providing membership opportunities to foreign firms. In the meantime, the Ministry of Finance is prepared to assist foreign firms to join under the existing membership system.

Impact on the U.S.- Japan Relationship:

You may wonder what all of these measures, some of which may seem rather arcane, auger for the United States' bilateral relationship with Japan. In my view, one immediate effect has been greatly to enhance the understanding between our two countries. The negotiations leading up to the Yen/Dollar Report were not easy. Japan's system of rules, regulations and official "guidance" is extremely complex and opaque. We had a long educational process, as did our counterparts from the Ministry of Finance. However, after six strenuous meetings, we came to an understanding on most issues, demonstrating our ability to find mutually acceptable approaches to some very complex problems.

More importantly, I think our agreement will yield important benefits for the United States and Japan, which will help keep our relationship strong. First, it is no secret that both countries are wrestling with the political implications of the United States' large trade deficit with Japan. In the United States, there are worries about its impact on income and employment, while Japan is concerned about calls for greater trade protection. As a strong proponent of the free market system, I believe that markets will adjust to restore equilibrium, if they are permitted to operate freely. Thus, I have high expectations for the effects of market forces as Japan liberalizes its financial market policies.

Specifically, we expect that over time the policy changes outlined in the Yen/Dollar Report will have important consequences for the yen/dollar exchange rate. With the development of a freely operating Euroyen market and the deregulation of domestic interest rates, investors will have access to a wide range of attractive assets in yen. This should fundamentally alter the underlying demand for the yen, leading to its appreciation against other currencies, including the dollar.

We recognize, of course, that there are so many other factors influencing exchange rates that it may be difficult to discern the separate effects of the Yen/Dollar Agreement, especially in the short run. In fact, it is possible that for a time other factors may offset, or outweigh, the effects of the Yen/Dollar Agreement. We will also have to wait to see how the markets react as the new opportunities become available. We are convinced, however, that permitting market forces gradually to assume a greater role in determining the value of the yen will help the yen strengthen to a level which is more in keeping with the underlying strength of the Japanese economy.

A stronger yen would have important benefits for the United States. First, it would improve the competitiveness of U.S. exports and import-competing industries. This would mean more employment and higher sales in these industries. In addition, as the yen attains a larger role in the international financial system, we expect that it will increasingly be used to denominate

international trade flows, official reserves and private portfolio investments. These changes, along with the freer access to the domestic Japanese market, will provide foreign financial institutions additional opportunities for profit and employment.

The agreement also contains important benefits to Japan. The measures it contains will help bring about greater efficiency in the Japanese capital market. The deregulation of domestic interest rates will help ensure that within Japan, domestic savings are invested where they will earn the highest rates of return, thereby maximizing the marginal productivity of capital. Deregulation will also directly benefit Japanese citizens in the form of market rates of interest on their savings. Opening the Japanese market to foreign financial institutions will generate healthy competition in the provision of financial services in Japan; this will promote low cost services for Japanese borrowers and investors.

International Implications of the Agreement

The Yen/Dollar Agreement also has significant international implications which work to the advantage of Japan, the United States and the rest of the world. Japan's decision to increase the international role of the yen and open its domestic financial markets is a tangible indication of its desire to assume the international financial responsibilities befitting a major economic power. And as Japan becomes more fully integrated in the world's financial system, its international stature will continue to grow.

In addition, Japan's liberalization efforts should contribute significantly to the efficiency of global resource allocation and increased economic welfare worldwide. As Japan liberalizes its financial policies, there will be greater scope for foreign entities to tap the considerable level of domestic Japanese savings. This will provide new sources of investment capital and reduce pressure on other markets. In addition, these policy changes will permit a more efficient global allocation of Japanese savings, thereby increasing welfare worldwide.

Conclusion:

In conclusion, I share Treasury Secretary Regan's view, expressed when he issued the Yen/Dollar Agreement in May, that this is an "historic document." I believe that it provides the framework for the yen's development into a truly international currency and for Japan's full integration into the international financial system.

However, the job is by no means finished. We are monitoring the implementation of the agreement very closely, and will be holding follow-up discussions with the Ministry of Finance next month to assess the progress to date and what additional steps may be needed. Over the longer term, we will continue to watch how the market develops and consider what further action should be taken.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 24, 1984

RESULTS OF AUCTION OF 3-YEAR 11-MONTH DOMESTIC NOTES

The Department of the Treasury has accepted $6,015 million of $15,962 million of tenders received from the public for the 3-year 11-month notes, Series N-1988, auctioned today. The notes will be issued October 31, 1984, and mature September 30, 1988.

The interest rate on the notes will be 11-3/8% 1/. The range of accepted competitive bids, and the corresponding prices at the 11-3/8% interest rate are as follows:

	Yield	Price
Low	11.38%	99.985
High	11.44%	99.799
Average	11.42%	99.861

Tenders at the high yield were allotted 25%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 283,919	$ 43,919
New York	12,847,581	5,146,331
Philadelphia	21,449	20,449
Cleveland	142,154	132,154
Richmond	53,748	36,993
Atlanta	58,020	33,020
Chicago	1,138,334	161,834
St. Louis	119,810	87,810
Minneapolis	22,060	16,060
Kansas City	46,563	42,363
Dallas	7,489	7,489
San Francisco	1,218,224	283,724
Treasury	3,056	3,056
Totals	$15,962,407	$6,015,202

The $6,015 million of accepted tenders includes $625 million of noncompetitive tenders and $5,390 million of competitive tenders from the public.

In addition to the $6,015 million of tenders accepted in the auction process, $220 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $300 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for Treasury bills issued on October 1, 1984, for securities that matured September 30, 1984.

1/ This interest rate, payable on an annual basis, will also be applied to the 3-year 11-month foreign-targeted notes auctioned today.

R-2897

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 24, 1984

RESULTS OF AUCTION OF 3-YEAR 11-MONTH FOREIGN-TARGETED NOTES

The Department of the Treasury has accepted $1,001 million of $3,996 million of tenders received from eligible bidders for the 3-year 11-month foreign-targeted notes, Series P-1988, auctioned today. The notes will be issued October 31, 1984, and mature September 30, 1988.

The interest rate on the notes will be 11-3/8% 1/ per annum, payable annually. The range of accepted competitive bids and the corresponding prices at the 11-3/8% interest rate are as follows:

	Yield 2/	Price
Low	11.30%	100.271
High	11.46%	99.788
Average	11.41%	99.939

Tenders at the high yield were allotted 92%.

1/ Established in the auction of the companion domestic issue.
2/ Based on an annual interest payment.

R-2898

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 24, 1984

CONTACT: Thym S. Smith
566-5252

STATEMENT BY SECRETARY DONALD T. REGAN

Secretary Regan stated that he was very gratified with the results of the auction today of the 3 year-11 month note targeted to foreign investors. The $4 billion of foreign tenders far exceeded the $1 billion amount sought and accepted by the Treasury, and the strength and diversity of the bidding from both European and Japanese investors was most encouraging. The Treasury will carefully review these results and their implications for future offerings of foreign targeted securities.

R-2899

TREASURY NEWS

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

Contact: Thym Smith (566-5252)
Edwin L. Dale (395-3080)

FOR IMMEDIATE RELEASE
October 25, 1984

JOINT STATEMENT OF
DONALD T. REGAN, SECRETARY OF THE TREASURY
AND
DAVID A. STOCKMAN,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
ON
BUDGET RESULTS FOR FISCAL YEAR 1984

SUMMARY

The Treasury Department is today releasing the September Monthly Statement of Receipts and Outlays of the United States Government, which shows the actual budget totals for the fiscal year that ended on September 30, 1984. The statement shows:

-- receipts of $666.5 billion;

-- on-budget outlays of $841.8 billion;

-- total outlays of $851.8 billion;

-- an on-budget deficit of $175.3 billion; and

-- a total deficit of $185.3 billion.

R-2900

Table 1.--BUDGET TOTALS
(in billions of dollars)

	Receipts	Outlays		Deficit (-)	
		On-budget	Total	On-budget	Total
1983 Actual............	600.6	795.9	808.3	-195.4	-207.7
1984 Estimates and Actual:					
February 1/........	670.1	853.8	870.0	-183.7	-199.9
August 2/..........	670.7	845.0	858.0	-174.3	-187.3
Actual.............	666.5	841.8	851.8	-175.3	-185.3

1/ February 1984 from the 1985 Budget.
2/ August 1984 from the Mid-Session Review of the 1985 Budget.

Receipts.--Receipts were estimated in the February budget at $670.1 billion, and were revised upward slightly to $670.7 billion in the August Mid-Session Review. In contrast, actual receipts were $666.5 billion, $4.2 billion below the August estimate. This decrease was the net effect of lower than anticipated collections of income taxes, partially offset by higher than anticipated collections of other sources of receipts, as described below.

-- Individual income taxes were $3.6 billion below the August estimate. This decrease was in large part due to lower than estimated collections of withheld income taxes, reflecting lower nominal incomes than assumed in the Mid-Session Review.

-- Lower-than-estimated collections of corporation income taxes, primarily reflecting lower corporate profits than assumed in August, reduced receipts by $2.1 billion.

-- Other receipts were higher by $1.5 billion, primarily due to higher than previously assumed collections of unemployment insurance receipts, excise taxes, and deposits of earnings by the Federal Reserve.

Outlays.--In the February Budget, total outlays were estimated at $870.0 billion. This estimate was reduced by $12.0 billion, to $858.0 billion, in the Mid-Session Review, reflecting the net impact of technical reestimates, policy changes, congressional action, and a revised economic forecast. Actual 1984 total outlays were $851.8 billion, $6.2 billion below the August estimate. This decrease is explained entirely by a shortfall in Defense military spending. Nondefense spending in the aggregate was essentially unchanged from August, although there were sizable revisions for individual programs.

ON-BUDGET OUTLAY CHANGES BY AGENCY AND PROGRAM

The major outlay changes since the August Mid-Session Review are described below. Table 2, which follows this discussion, displays the estimates for February and August and the actual levels by agency and major program.

Funds Appropriated to the President

-- Outlays for foreign military sales credit were $0.4 billion below the August estimate because slower than projected deliveries of military equipment and services required a lower level of loan disbursements.

-- An increase of $0.6 billion above the August estimate in international monetary programs reflects the impact of exchange rate changes on the U.S. reserve position in the International Monetary Fund.

Department of Agriculture

-- Outlays for the Commodity Credit Corporation (CCC) were $1.0 billion above the Mid-Session Review estimate. This difference is attributable primarily to a shortfall in corn loan repayments because corn prices were lower than predicted.

-- Farmers Home Administration outlays were $1.4 billion higher than the August estimate, primarily due to lower interest collections on outstanding loans caused by the continuing economic problems of the agriculture industry.

-- Offsetting receipts to the Agriculture Department were $0.4 billion lower than the Mid-Session estimate largely because the volume of timber harvested was lower than expected.

Department of Defense - Military

-- Defense outlays were $6.2 billion less than the Mid-Session estimate. The shortfall consists of $2.6 billion in lower than anticipated costs, $1.7 billion in programs delays due in part to improved management of spare parts acquisition, $0.7 billion in later than anticipated payments, and $1.2 billion in estimating errors, primarily in revolving funds.

Department of Education

-- Net outlays for the Department of Education (ED) were $0.3 billion below the August estimate. This change results primarily from increased college housing loan repayments due to a provision in the 1984 appropriation act that enables colleges to pay off their outstanding loan amounts on a discounted basis, using rates set by ED and Treasury at levels that provide a net benefit to the Government.

Department of Health and Human Services

-- Outlays for Medicare were $1.5 billion below the Mid-Session estimate ($.9 billion in the Hospital Insurance (HI) and $.6 billion in the Supplementary Medical Insurance (SMI) trust funds). The SMI shortfall appears largely due to lags in processing physician and clinical lab claims associated with implementing recent legislation. Hospitals coming under the new Prospective Payment System (PPS) in the final quarter of 1984 experienced larger than expected delays in processing claims, larger than expected audit disallowances associated with setting initial PPS rates, and lower than expected incurred program costs.

-- Outlays for Social Security (OASDI) were $0.4 billion below the August estimate largely because of lower administrative expenses for the disability insurance program as a result of the moratorium on continuing disability investigations, and a decrease in OASI benefits caused by lower retroactive benefit payments and fewer retired persons.

Department of Housing and Urban Development

-- Outlays for low-rent housing loans were $1.0 billion above the August estimate, reflecting the extension of direct loans from HUD to public housing authorities (PHAs) to meet unanticipated financing needs. Recent questions concerning the tax-exempt status of obligations issued by PHAs led to a suspension of new obligation sales that would normally finance public housing.

-- Outlays of the GNMA special assistance functions fund were $0.2 billion below the August estimate due to fewer purchases of GNMA tandem mortgages. Construction of housing projects in the pipeline is proceeding more slowly than was expected.

Department of Transportation

-- Federal Highway Administration outlays were $0.4 billion below the Mid-Session Review estimate, primarily due to congressional failure to approve the Interstate Cost Estimate that would have allowed DOT to apportion $7.0 billion to the States in 1984. States conserved their apportioned obligation ceiling in anticipation of Interstate funds until the last quarter, which reduced the expected outlay level.

Department of the Treasury

-- Interest on the public debt was $1.7 billion higher than estimated in the Mid-Session Review. This increase is due largely to higher than anticipated interest rates, differences in the timing and composition of Treasury borrowing from what was previously assumed, and a technical estimating error in the Mid-Session estimate.

Veterans Administration

-- Total outlays for several veterans programs were $0.3 billion lower than the Mid-Session estimate. The largest factors in this change are lower than anticipated caseloads and lower average benefits in the compensation and pension programs.

Federal Deposit Insurance Corporation

-- FDIC outlays increased $0.3 billion above the August estimate as a result of FDIC providing assistance due to a number of unexpected bank failures.

National Credit Union Administration

-- Outlays of the NCUA were $0.3 billion above the Mid-Session estimate because of increased borrowing by its central liquidity facility (CLF) due to a greater number of member credit unions. CLF membership has continued to grow over the past year, from 25% to nearly 100% of all credit unions.

Undistributed offsetting receipts

-- Receipts from rents and royalties on the Outer Continental Shelf (OCS) were $0.8 billion lower than estimated in the Mid-Session. Later than anticipated lease execution for two sales delayed receipts into FY 1985, and actual average gas prices were lower than estimated.

OFF-BUDGET OUTLAY CHANGES

Federal Financing Bank outlays were $2.7 billion below the Mid-Session estimates. The major factors responsible for this change were:

-- Farmers Home Administration sales of loan assets to the FFB decreased $1.1 billion due to lower than estimated demand for disaster loans;

-- Rural Electrification Administration guarantees of FFB loans decreased $0.7 billion. The expected decline in this loan demand resulting from existing excess electric capacity was more pronounced than anticipated; and

-- delays in the procurement of military equipment and services for foreign countries led to lower than projected demand for foreign military sales loans, resulting in a $0.3 billion decrease from Mid-Session.

Net outlays for the Postal Service were $0.2 billion below the August estimate due to a large volume of business that generated higher than anticipated receipts.

Table 2.--1984 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	1983 Actual	1984 Estimate February	1984 Estimate August	1984 Actual
Receipts by Source				
Individual income taxes	288,938	293,260	299,525	295,955
Corporation income taxes	37,022	66,606	59,016	56,893
Social insurance taxes and contributions:				
Employment taxes and contributions	185,766	211,692	212,001	212,184
Unemployment insurance	18,799	23,330	24,647	25,138
Other retirement contributions	4,429	4,471	4,505	4,580
Subtotal, Social insurance taxes and contributions	208,994	239,494	241,153	241,902
Excise taxes	35,300	38,195	37,164	37,361
Estate and gift taxes	6,053	5,922	6,052	6,010
Customs	8,655	9,064	11,178	11,370
Miscellaneous receipts	15,601	17,531	16,577	16,965
Total, Receipts	600,562	670,071	670,665	666,457

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Table 2.--1984 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (continued)

	1983 Actual	1984 Estimate February	1984 Estimate August	1984 Actual
On-Budget Outlays by Major Agency				
Legislative branch and the Judiciary	2,225	2,578	2,574	2,450
Executive Office of the President	94	112	112	95
Funds appropriated to the President:				
Disaster relief	202	220	220	243
International security assistance:				
Foreign military sales credit	609	1,616	1,416	1,060
Other	3,068	3,830	3,582	3,974
International development assistance	2,352	3,037	2,911	2,876
International monetary programs	150	---	---	565
Military sales programs	-1,216	-878	-578	-389
Other	263	225	210	209
Subtotal, Funds appropriated to the President	5,427	8,052	7,762	8,538
Agriculture:				
Commodity Credit Corporation and foreign assistance	19,850	7,817	7,415	8,450
Farmers Home Administration	4,303	4,709	4,688	6,066
Food and Nutrition Service	17,326	17,121	17,625	17,579
Offsetting receipts	-868	-1,314	-1,314	-943
Other	5,775	6,417	6,396	6,329
Subtotal, Agriculture	46,384	34,750	34,810	37,482
Commerce	1,929	2,166	1,985	1,892
Defense-Military:				
Military and retired military personnel	61,468	64,545	64,545	64,125
Operation and maintenance	64,915	68,539	68,339	67,369
Procurement	53,624	64,450	63,750	61,879
Research, development, test, and evaluation	20,554	25,157	23,847	23,117
Other	4,450	8,310	6,520	4,315
Subtotal, Defense-Military	205,011	231,000	227,000	220,805

Table 2.--1984 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (continued)

	1983 Actual	1984 Estimate February	1984 Estimate August	1984 Actual
Defense-Civil	2,945	3,059	3,056	3,072
Education	14,567	16,074	15,767	15,494
Energy	8,356	8,848	8,320	8,358
Health and Human Services:				
Social security (OASDI)	172,171	181,707	181,306	180,866
Medicare	56,841	66,176	64,194	62,669
Medicaid	18,985	20,237	20,060	20,061
Public Health Service	7,856	8,283	8,273	8,184
Other	20,600	19,578	20,428	20,444
Subtotal, Health and Human Services	276,453	295,981	294,261	292,224
Housing and Urban Development:				
Housing payments	7,786	8,584	8,704	8,774
Federal Housing Administration fund	-192	-753	-504	-366
Low rent housing - loans and other expenses	111	125	125	1,111
Government National Mortgage Association	900	1,141	871	612
Community development grants	3,554	3,900	3,900	3,819
Other	3,156	2,898	2,736	2,566
Subtotal, Housing and Urban Development	15,315	15,895	15,831	16,517
Interior	4,569	4,854	4,816	4,889
Justice	2,849	3,437	3,313	3,171
Labor:				
Training and employment services	3,858	3,504	3,292	3,196
Advances to the unemployment trust fund and other funds	12,043	4,418	4,282	4,182
Unemployment trust fund	32,655	24,800	25,800	26,089
Other	2,509	1,736	1,980	1,954
Intrabudgetary transactions	-12,871	-7,395	-10,602	-10,899
Subtotal, Labor	38,194	27,062	24,752	24,522
State	2,267	2,600	2,445	2,428

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Table 2.--1984 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (continued)

	1983 Actual	1984 Estimate February	1984 Estimate August	1984 Actual
Transportation:				
Federal Highway Administration	8,949	11,362	10,956	10,569
Federal Aviation Administration	3,404	4,096	3,895	3,819
Other	8,263	9,876	9,443	9,517
Subtotal, Transportation	20,616	25,334	24,294	23,904
Treasury:				
Interest on the public debt	128,813	149,500	152,100	153,838
Offsetting receipts	-26,333	-25,437	-26,095	-25,881
Other	13,767	13,644	13,402	13,008
Subtotal, Treasury	116,248	137,707	139,407	140,964
Environmental Protection Agency	4,299	3,958	4,088	4,057
General Services Administration	145	546	425	277
National Aeronautics and Space Administration	6,664	7,068	7,068	7,048
Office of Personnel Management	21,278	22,565	22,624	22,590
Small Business Administration	479	443	336	255
Veterans Administration	24,816	25,771	25,850	25,596
District of Columbia	693	567	567	570
Export-Import Bank	578	1,724	1,078	1,067
Federal Deposit Insurance Corporation	-613	-1,424	-500	-248
Federal Emergency Management Agency	507	582	577	590
Federal Home Loan Bank Board	-453	-699	-700	-561
National Credit Union Administration	-178	-125	-125	193
Postal Service payment	789	879	879	877
Railroad Retirement Board	3,963	3,850	3,734	3,647
Tennessee Valley Authority	820	755	310	351
Other (net)	4,244	4,733	4,712	4,489
Undistributed offsetting receipts:				
Other interest	---	---	-13	-18
Federal employer contributions to retirement funds	-8,122	-8,844	-8,794	-8,760
Interest received by trust funds	-16,952	-19,396	-20,199	-20,333
Rents and royalties on the Outer Continental Shelf	-10,492	-8,700	-7,453	-6,694

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Table 2.--1984 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (continued)

	1983 Actual	1984 Estimate February	1984 Estimate August	1984 Actual
Total, On-budget outlays	795,916	853,760	844,969	841,800
On-budget deficit (-)	-195,354	-183,689	-174,303	-175,342
Off-budget Federal entities:				
Federal Financing Bank	10,404	12,729	9,946	7,277
Strategic petroleum reserve	1,641	2,157	2,212	2,329
Postal Service	322	1,209	575	360
Other	-10	101	299	31
Total, Off-budget outlays	12,357	16,196	13,033	9,996
Total, Outlays (on- and off-budget)	808,274	869,956	858,001	851,796
Total, Deficit (-)	-207,711	-199,884	-187,336	-185,339

NOTE: Detail may not add to totals because of rounding.

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Final[1] Monthly Treasury Statement of Receipts and Outlays of the United States Government

for the fiscal year through September 30, 1984

TABLE I—TOTALS OF BUDGET AND OFF-BUDGET RESULTS AND FINANCING (In millions)

Period	Total Budget and Off-Budget Results					Means of Financing			
	Budget Receipts	Budget Outlays	Budget Surplus (+) or Deficit (−)	Off-Budget Surplus (+) or Deficit (−)	Total Surplus (+) or Deficit (−)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (−)	By Other Means	Total Budget and Off-budget Financing
Current month (September 1984)	$68,019	$51,234	+$16,785	−$1,974	+$14,811	$4,167	−$18,978	−$1	−$14,811
Actual 1984 (twelve months)	666,457	841,800	−175,342	−9,996	−185,339	170,817	5,636	8,885	185,339
Comparative data:									
Actual 1983 (full year)	600,562	795,916	−195,354	−12,357	−207,711	212,424	−9,889	5,176	207,711
Estimated 1984[2]	670,665	844,969	−174,303	−13,033	−187,336	161,000	17,116	9,220	187,336
Estimated 1985[2]	763,768	930,635	−166,866	−13,298	−180,165	178,000	....	2,165	180,165

TABLE II—SUMMARY OF RECEIPTS AND OUTLAYS (In millions)

Classification	Actual This Month	Actual This Fiscal Year to Date	Actual Comparable Prior Period	Budget Estimates Full Fiscal Year[2]
BUDGET RECEIPTS				
Individual income taxes	$31,541	$295,955	$288,938	$299,525
Corporation income taxes	11,891	56,893	37,022	59,016
Social insurance taxes and contributions:				
Employment taxes and contributions	17,990	212,184	185,766	212,001
Unemployment insurance	295	25,138	18,799	24,647
Other retirement contributions	354	4,580	4,429	4,505
Excise taxes	3,120	37,361	35,300	37,164
Estate and gift taxes	449	6,010	6,053	6,052
Customs duties	939	11,370	8,655	11,178
Miscellaneous receipts	1,440	16,965	15,601	16,577
Total	**68,019**	**666,457**	**600,562**	**670,665**
BUDGET OUTLAYS				
Legislative Branch	110	1,584	1,438	1,663
The Judiciary	69	866	787	910
Executive Office of the President	−(**)	95	94	112
Funds Appropriated to the President	811	8,538	5,427	7,762
Department of Agriculture	2,496	37,482	46,384	34,810
Department of Commerce	186	1,892	1,929	1,985
Department of Defense—Military	18,354	220,805	205,011	227,000
Department of Defense—Civil	303	3,072	2,945	3,056
Department of Education	1,063	15,494	14,567	15,767
Department of Energy	355	8,358	8,356	8,320
Department of Health and Human Services	7,428	292,224	276,453	294,261
Department of Housing and Urban Development	1,865	16,517	15,315	15,831
Department of the Interior	577	4,889	4,569	4,816
Department of Justice	232	3,171	2,849	3,313
Department of Labor	1,700	24,522	38,194	24,752
Department of State	169	2,428	2,267	2,445
Department of Transportation	2,277	23,904	20,616	24,294
Department of the Treasury:				
General revenue sharing	....	4,567	4,614	4,567
Interest on the public debt	12,343	153,838	128,813	152,100
Other	−1,772	−17,440	−17,180	−17,259
Environmental Protection Agency	338	4,057	4,299	4,088
General Services Administration	44	277	145	425
National Aeronautics and Space Administration	502	7,048	6,664	7,068
Office of Personnel Administration	2,116	22,590	21,278	22,624
Small Business Administration	154	255	479	336
Veterans Administration	932	25,596	24,816	25,850
Other independent agencies	984	10,977	10,350	10,531
Allowances, undistributed	....	....	....	....
Undistributed offsetting receipts:				
Other interest	−2	−18	....	−13
Federal employer contributions to retirement funds	−1,557	−8,760	−8,122	−8,794
Interest on certain Government accounts	−243	−20,333	−16,952	−20,199
Rents and royalties on the Outer Continental Shelf lands	−602	−6,694	−10,492	−7,453
Total	**51,234**	**841,800**	**795,916**	**844,969**
Budget surplus (+) or deficit (−)	**+16,785**	**−175,342**	**−195,354**	**−174,303**
Off-budget surplus (+) or deficit (−)	−1,974	−9,996	−12,357	−13,033
Total surplus (+) or deficit (−)	+14,811	−185,339	−207,711	−187,336

See footnotes on page 3.
Source: Financial Management Service, Department of the Treasury.

TABLE III—RECEIPTS AND OUTLAYS—(In millions)

Classification of RECEIPTS	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Individual income taxes:									
Withheld	$21,852			$279,345			$266,010		
Presidential Election Campaign Fund	1			35			36		
Other	11,716			81,346			83,585		
Total—Individual income taxes	33,568	$2,027	$31,541	360,726	$64,771	295,955	349,630	$60,692	$288,938
Corporation income taxes	12,332	441	11,891	74,179	17,286	56,893	61,780	24,758	37,022
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	11,325	...	11,325	129,090	296	128,794	110,267	293	109,975
Self-Employment Contributions Act taxes	897	...	897	6,602	...	6,602	4,999	...	4,999
Deposits by States	865	...	865	14,916	...	14,916	13,998	...	13,998
Taxes on benefits	...	...	...	2,132	...	2,132	...	...	...
Total—FOASI trust fund	13,088	...	13,088	152,740	296	152,444	129,265	293	128,972
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	1,088	...	1,088	13,451	39	13,412	15,646	53	15,594
Self-Employment Contributions Act taxes	87	...	87	733	...	733	823	...	823
Receipts from railroad retirement account	...	...	...	...	...	...	...	...	
Deposits by States	66	...	66	1,618	...	1,618	1,931	...	1,931
Taxes on benefits	...	...	...	143	...	143	...	...	
Total—FDI trust fund	1,241	...	1,241	15,945	39	15,907	18,401	53	18,348
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	2,964	...	2,964	34,557	81	34,476	30,919	83	30,835
Self-Employment Contributions Act taxes	225	...	225	1,374	...	1,374	934	...	934
Receipts from railroad retirement account	...	...	...	308	...	308	309	...	309
Deposits by States	177	...	177	4,103	...	4,103	3,563	...	3,563
Total—FHI trust fund	3,366	...	3,366	40,342	81	40,262	35,724	83	35,641
Railroad retirement accounts:									
Railroad Retirement Act taxes	298	2	296	3,334	13	3,321	2,807	2	2,805
Taxes on Railroad Retirement benefits	...	...	...	251	...	251	...	...	...
Total—Employment taxes and contributions	17,993	2	17,990	212,612	428	212,184	186,197	431	185,766
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	130	...	130	19,036	...	19,036	14,425	...	14.
Federal Unemployment Tax Act taxes	128	(**)	127	6,052	153	5,899	4,316	110	4,
Railroad Unemployment Ins. Act Contributions	38	...	38	202	...	202	168	...	
Total—Unemployment trust fund	296	(**)	295	25,291	153	25,138	18,909	110	18,
Other retirement contributions:									
Federal employees retirement contributions:									
Civil service retirement and disability fund	343	...	343	4,455	...	4,455	4,311	...	4,
Foreign service retirement and disability fund	3	...	3	38	...	38	38	...	
Other	(**)	...	(**)	2	...	2	2	...	
Total—Federal employees retirement contributions	346	...	346	4,494	...	4,494	4,351	...	4,:

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—(In millions)

Classification of RECEIPTS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Social insurance taxes and contributions—Continued									
Other retirement contributions—Continued									
Other retirement contributions:									
Civil service retirement and disability fund	$8	....	$8	$86	....	$86	78	....	$78
Total—Other retirement contributions	354	....	354	4,580	....	4,580	4,429	....	4,429
Total—Social insurance taxes and contributions	18,642	$3	18,639	242,483	$581	241,902	209,535	$541	208,994
Excise taxes:									
Miscellaneous excise taxes[3]	1,714	29	1,686	23,019	418	22,601	24,701	356	24,345
Airport and airway trust fund	236	....	236	2,501	2	2,499	2,165	(**)	2,165
Highway trust fund	1,153	....	1,153	11,885	142	11,743	8,364	68	8,297
Black lung disability trust fund	45	....	45	518	....	518	494	....	494
Total—Excise taxes	3,149	29	3,120	37,923	562	37,361	35,724	424	35,300
Estate and gift taxes	459	11	449	6,179	168	6,010	6,226	173	6,053
Customs duties	973	34	939	11,791	421	11,370	9,060	405	8,655
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks	1,314	....	1,314	15,684	....	15,684	14,492	....	14,492
All other	130	5	126	1,303	22	1,281	1,135	26	1,109
Total—Miscellaneous receipts	1,444	5	1,440	16,987	22	16,965	15,627	26	15,601
Total—Budget receipts	70,568	2,549	68,019	750,269	83,812	666,457	687,581	87,019	600,562

Note: Throughout this statement, details may not add to totals due to rounding.

FOOTNOTES

[1] This statement contains the final figures showing budget results for the fiscal year ending September 30, 1984.
[2] Based on the Mid-Session Review of the FY 1984 Budget released by OMB on August 15, 1984.
[3] Includes amounts received for windfall profits tax pursuant to P.L. 96-223.
[4] Includes an adjustment to prior reporting.
[5] Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.
[6] Major sources of information used to determine Treasury's operating cash include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communications System and reconciling wires from Internal Revenue Service Centers. Operating cash is presented on a modified cash basis: deposits are reflected as received; and withdrawals are reflected as processed.
[7] Dollar deposits with the IMF has been decreased and Miscellaneous Asset Accounts correspondingly increased by $4 million. This was done to correct an out-of-balance condition caused by including IMF's administrative account when calculating the U.S. reserve position.
**Less than $500,000.00

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Legislative Branch:									
Senate	$23	(**)	$23	$256	$6	$250	$233	$6	$227
House of Representatives	38	$1	37	452	9	442	409	9	400
Joint Items	1		1	120		120	95		95
Congressional Budget Office	1		1	16		16	14		14
Architect of the Capitol	10		10	94		94	91		91
Library of Congress	16		16	268		268	252		252
Government Printing Office:									
Revolving fund (net)	−11		−11	5		5	−1		−1
General fund appropriations	7		7	102		102	89		89
General Accounting Office	23		23	262		262	251		251
United States Tax Court	1		1	15		15	13		13
Other Legislative Branch Agencies	1		1	16		16	16		16
Proprietary receipts from the public		−1	1		3	−3		5	−5
Intrabudgetary transactions				−4		−4	−4		−4
Total—Legislative Branch	110	(**)	110	1,602	18	1,584	1,457	19	1,438
The Judiciary:									
Supreme Court of the United States	1		1	14		14	14		14
Courts of Appeals, District Courts, and other Judicial Services	64		64	807		807	729		729
Other	3	(**)	3	46	(**)	46	44	(**)	44
Total—The Judiciary	69	(**)	69	866	(**)	866	787	(**)	787
Executive Office of the President:									
Compensation of the President and the White House Office	[4]−6		−6	16		16	21		21
Office of Management and Budget	2	(**)	2	37	(**)	37	35	(**)	35
Other	3	(**)	3	43	(**)	43	39		39
Total—Executive Office of the President	−(**)	(**)	−(**)	95	(**)	95	94	(**)	94
Funds Appropriated to the President:									
Appalachian Regional Development Programs	16		16	212		212	264	(**)	264
Disaster relief	28		28	243		243	202		202
International Security Assistance:									
Guarantee reserve fund	127	3	125	581	333	248	397	278	119
Foreign military sales credit	100		100	1,060		1,060	609		608
Economic support fund	207		207	2,874		2,874	2,676		2,676
Military assistance	134		134	928		928	402		402
Peacekeeping operations	1		1	39		39	45		45
Other	5		5	43		43	42		42
Proprietary receipts from the public		(**)	(**)		158	−158		215	−215
Total—International Security Assistance	574	3	571	5,525	491	5,034	4,170	494	3,677

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Funds Appropriated to the President—Continued									
International Development Assistance:									
Multilateral Assistance:									
Contributions to International Financial Institutions:									
International Development Association	...	...	...	$911	...	$911	$914	...	$914
Inter-American Development Bank	$27	...	$27	325	...	325	217	...	217
Other	15	...	15	155	...	155	110	...	110
International organizations and programs	25	...	25	308	...	308	219	...	219
Total—Multilateral Assistance	66	...	66	1,699	...	1,699	1,460	...	1,460
Agency for International Development:									
Functional development assistance program	39	...	39	1,234	...	1,234	1,108	...	1,108
Operating expenses Agency for International Development	26	...	26	358	...	358	331	...	331
Payment to Foreign Service retirement and disability fund	4	...	4	41	...	41	37	...	37
Other	-27	$4	-31	221	$32	188	244	$27	218
Proprietary receipts from the public	...	47	-47	...	681	-681	...	825	-825
Total—Agency for International Development	41	51	-9	1,853	713	1,140	1,720	852	868
Peace Corps	9	...	9	111	...	111	110	(**)	110
Overseas Private Investment Corporation	7	20	-13	41	140	-99	-29	72	-101
Inter-American Foundation	3	1	1	22	8	14	23	13	10
Other	1	...	1	11	...	11	4	...	4
Total—International Development Assistance	127	72	55	3,737	861	2,876	3,289	937	2,352
International Monetary Programs	183	...	183	565	...	565	150	...	150
Military Sales Programs:									
Foreign military sales trust fund	800	...	800	10,936	...	10,936	12,405	...	12,405
Other	5	30	-25	31	119	-89	-123	318	-441
Proprietary receipts from the public	...	817	-817	...	11,237	-11,237	...	13,180	-13,180
Other	(**)	...	(**)	-3	...	-3	-1	...	-1
Total—Funds Appropriated to the President	1,732	921	811	21,246	12,709	8,538	20,356	14,929	5,427
Department of Agriculture:									
Departmental Administration	2	...	2	71	...	71	63	...	63
Agricultural Research Service	38	...	38	487	...	487	469	...	469
Cooperative State Research Service	24	...	24	239	...	239	220	...	220
Extension Service	30	...	30	330	...	330	323	...	323
Statistical Reporting Service	4	...	4	56	...	56	50	...	50
Economic Research Service	3	...	3	40	...	40	37	...	37
Foreign Agricultural Service	6	...	6	74	...	74	71	...	71
Foreign Assistance Programs	273	...	273	1,142	...	1,142	1,028	...	1,028

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Agriculture—Continued									
Agricultural Stabilization and Conservation Service	$29	....	$29	$275	....	$275	$250	....	$250
Federal Crop Insurance Corporation	51	$4	46	666	$90	576	518	$188	330
Commodity Credit Corporation:									
Price support and related programs	619	590	29	13,968	6,736	7,232	28,169	9,405	18,764
Intragovernmental fund	-57	....	-57	-57	....	-57	-36	....	-36
National Wool Act program	2	....	2	132	....	132	94	....	94
Total—Commodity Credit Corporation	565	590	-25	14,044	6,736	7,308	28,227	9,405	18,822
Rural Electrification Administration	200	(**)	200	231	1	231	35	(**)	34
Farmers Home Administration:									
Public enterprise funds:									
Self-help housing land development fund	....	....	....	....	1	-1	1	(**)	1
Rural housing insurance fund	1,295	1,071	225	10,041	7,700	2,340	8,748	6,920	1,828
Agricultural credit insurance fund	685	704	-19	12,974	10,497	2,478	9,759	8,351	1,408
Rural development insurance fund	198	154	44	3,081	2,328	753	2,433	1,858	575
Rural water and waste disposal grants	14	....	14	135	....	135	157	....	157
Salaries and expenses	32	....	32	324	....	324	293	....	293
Other	1	....	1	37	....	37	41	....	41
Total—Farmers Home Administration	2,226	1,929	297	26,592	20,526	6,066	21,432	17,129	4,303
Soil Conservation Service:									
Conservation operations	26	....	26	353	....	353	327	....	327
Watershed and flood prevention operations	22	....	22	218	....	218	191	....	191
Other	7	....	7	76	....	76	73	....	73
Animal and Plant Health Inspection Service	28	....	28	296	....	296	231	....	231
Agricultural Marketing Service:									
Funds for strengthening markets, income, and supply	48	....	48	417	....	417	546	....	546
Other	12	3	9	152	37	115	144	30	114
Food Safety and Inspection Service	27	....	27	339	....	339	325	....	325
Food and Nutrition Service:									
Food stamp program	919	....	919	11,561	....	11,561	11,839	....	11,839
Nutrition assistance for Puerto Rico	67	....	67	814	....	814	814	....	814
Child nutrition programs	106	....	106	3,536	....	3,536	3,278	....	3,278
Special supplemental food programs (WIC)	103	....	103	1,398	....	1,398	1,150	....	1,150
Other	9	....	9	270	....	270	245	....	245
Total—Food and Nutrition Service	1,204	....	1,204	17,579	....	17,579	17,326	....	17,326
Forest Service:									
Forest research	9	....	9	109	....	109	110	....	110
National Forest system	87	....	87	1,057	....	1,057	986	....	986
Construction	35	....	35	331	....	331	440	....	440
Forest Service permanent appropriations	7	....	7	213	....	213	200	....	200
Cooperative work	17	....	17	135	....	135	116	....	116
Other	17	....	17	186	....	186	152	....	152
Total—Forest Service	171	....	171	2,029	....	2,029	2,004	....	2,004
Other	9	....	9	108	(**)	108	148	32	116
Proprietary receipts from the public	....	-14	14	....	943	-943	....	759	-759
Intrabudgetary transactions	2	....	2	(**)	....	(**)	-110	....	-110
Total—Department of Agriculture	5,008	2,512	2,496	65,814	28,333	37,482	73,927	27,543	46,384

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Commerce:									
General Administration	-$1	....	-$1	$33	....	$33	$35	....	$35
Bureau of the Census	10	....	10	161	....	161	248	....	248
Economic and Statistical Analysis	5	....	5	59	....	59	62	....	62
Economic Development Assistance	32	$5	27	312	$93	219	418	$89	329
Promotion of Industry and Commerce	28	....	28	253	....	253	228	....	228
Science and Technology:									
National Oceanic and Atmospheric Administration	106	1	104	1,021	15	1,006	1,033	20	1,013
Patent and Trademark Office	5	....	5	67	....	67	62	....	62
National Bureau of Standards	9	....	9	118	....	118	119	....	119
National Telecommunications and Information Administration	2	....	2	31	....	31	38	....	38
Total—Science and Technology	122	1	121	1,237	15	1,222	1,253	20	1,233
Proprietary receipts from the public	....	3	-3	....	65	-65	....	121	-121
Intrabudgetary transactions	-1	....	-1	10	....	10	-85	....	-85
Total—Department of Commerce	195	9	186	2,065	173	1,892	2,159	230	1,929
Department of Defense—Military:									
Military Personnel:									
Department of the Army	1,617	....	1,617	18,327	....	18,327	17,439	....	17,439
Department of the Navy	1,337	....	1,337	15,709	....	15,709	15,032	....	15,032
Department of the Air Force	1,157	....	1,157	13,619	....	13,619	13,053	....	13,053
Total—Military Personnel	4,111	....	4,111	47,655	....	47,655	45,523	....	45,523
Retired Military Personnel	1,385	....	1,385	16,471	....	16,471	15,945	....	15,945
Operation and Maintenance:									
Department of the Army	1,578	....	1,578	18,362	....	18,362	17,292	....	17,292
Department of the Navy	2,002	....	2,002	23,488	....	23,488	22,659	....	22,659
Department of the Air Force	1,616	....	1,616	19,274	....	19,274	19,106	....	19,106
Defense agencies	522	....	522	6,245	....	6,245	5,858	....	5,858
Total—Operation and Maintenance	5,718	....	5,718	67,369	....	67,369	64,915	....	64,915
Procurement:									
Department of the Army	1,095	....	1,095	13,577	....	13,577	11,443	....	11,443
Department of the Navy	2,023	....	2,023	23,989	....	23,989	21,801	....	21,801
Department of the Air Force	1,942	....	1,942	23,541	....	23,541	19,886	....	19,886
Defense agencies	65	....	65	772	....	772	493	....	493
Total—Procurement	5,125	....	5,125	61,879	....	61,879	53,624	....	53,624

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Defense—Military—Continued									
Research, Development, Test, and Evaluation:									
Department of the Army	$315	....	$315	$3,812	....	$3,812	$3,658	....	$3,658
Department of the Navy	605	....	605	6,662	....	6,662	5,854	....	5,854
Department of the Air Force	870	....	870	10,353	....	10,353	9,182	....	9,182
Defense agencies	226	....	226	2,289	....	2,289	1,861	....	1,861
Total—Research, Development, Test, and Evaluation	2,017	....	2,017	23,117	....	23,117	20,554	....	20,554
Military Construction:									
Department of the Army	98	....	98	963	....	963	954	....	954
Department of the Navy	87	....	87	1,053	....	1,053	992	....	992
Department of the Air Force	128	....	128	1,314	....	1,314	1,196	....	1,196
Defense agencies	7	....	7	375	....	375	382	....	382
Total—Military Construction	320	....	320	3,706	....	3,706	3,524	....	3,524
Family Housing	197	$1	196	2,413	$1	2,413	2,128	$2	2,126
Revolving and Management Funds:									
Public Enterprise Funds	(**)	(**)	(**)	2	2	(**)	2	2	(**)
Intragovernmental Funds:									
Department of the Army	-57	....	-57	-95	....	-95	-21	....	-21
Department of the Navy	-106	....	-106	-423	....	-423	579	....	579
Department of the Air Force	81	....	81	-78	....	-78	-112	....	-112
Defense agencies	-163	....	-163	-473	....	-473	-1,251	....	-1,251
Other	20	24	-4	248	285	-37	261	267	-5
Proprietary receipts from the public	....	30	-30	....	674	-674	....	367	-367
Intrabudgetary transactions	-239	....	-239	-22	....	-22	-23	....	-23
Total—Department of Defense—Military	18,409	55	18,354	221,768	962	220,805	205,648	637	205,011
Department of Defense—Civil:									
Corps of Engineers:									
General investigations	15	....	15	139	....	139	138	....	138
Construction, general	110	....	110	1,103	....	1,103	1,258	....	1,258
Operation and maintenance, general	166	....	166	1,287	....	1,287	1,103	....	1,103
Flood control	42	....	42	432	....	432	330	....	330
Other	-29	....	-29	152	....	152	147	....	147
Proprietary receipts from the public	....	3	-3	....	73	-73	....	59	-59
Total—Corps of Engineers	304	3	301	3,112	73	3,039	2,976	59	2,917
Other	3	(**)	3	39	(**)	38	35	(**)	34
Proprietary receipts from the public	....	1	-1	....	6	-6	....	6	-6
Total—Department of Defense—Civil	307	4	303	3,151	80	3,072	3,011	65	2,945
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	143	....	143	3,077	....	3,077	2,726	....	2,726
Impact aid	51	....	51	578	....	578	548	....	548
Special programs and populations	95	....	95	632	....	632	482	....	482
Indian education	4	....	4	72	....	72	70	....	70
Total—Office of Elementary and Secondary Education	292	....	292	4,358	....	4,358	3,825	....	3,825

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Education—Continued									
Office of Bilingual Education and Minority Languages Affairs	$9	....	$9	$167	....	$167	$100	....	$100
Office of Special Education and Rehabilitative Services:									
Education for the handicapped	78	....	78	953	....	953	1,290	....	1,290
Rehabilitation services and handicapped research	194	....	194	1,414	....	1,414	949	....	949
Office of Vocational and Adult Education	25	....	25	743	....	743	745	....	745
Office of Postsecondary Education:									
College housing loans	-1	$157	-158	123	$362	-239	161	$178	-17
Student financial assistance	376	....	376	3,743	....	3,743	4,044	....	4,044
Guaranteed student loans	153	....	153	3,245	....	3,245	2,556	....	2,556
Higher education	37	....	37	419	....	419	357	....	357
Higher education facilities loan and insurance	-15	....	-15	-1	....	-1	21	....	21
Total—Office of Postsecondary Education	551	157	394	7,530	362	7,168	7,139	178	6,961
Office of Educational Research and Improvement	-3	....	-3	247	....	247	218	....	218
Special Institutions	58	....	58	176	....	176	249	....	249
Departmental Management	23	....	23	309	....	309	249	....	249
Proprietary receipts from the public	....	6	-6	....	41	-41	....	18	-18
Total—Department of Education	1,227	163	1,063	15,897	403	15,494	14,763	196	14,567
Department of Energy:									
Atomic energy defense activities	546	....	546	6,120	....	6,120	5,171	....	5,171
Energy programs:									
General science and research activities	61	....	61	650	....	650	589	....	589
Energy supply, R and D activities	126	....	126	2,207	....	2,207	2,276	....	2,276
Uranium supply and enrichment activities	211	....	211	1,864	....	1,864	1,646	....	1,646
Fossil energy research and development	26	....	26	325	....	325	403	....	403
Naval petroleum and oil shale reserves	10	....	10	136	....	136	228	....	228
Energy conservation	45	....	45	519	....	519	476	....	476
Strategic petroleum reserve	13	....	13	189	....	189	215	....	215
Nuclear waste disposal fund	29	....	29	271	....	271	160	....	160
Other	27	....	27	271	....	271	181	....	181
Total—Energy Programs	547	....	547	6,433	....	6,433	6,173	....	6,173
Power Marketing Administration	214	116	97	1,423	1,464	-40	1,241	995	246
Departmental Administration	39	....	39	362	....	362	320	....	320
Proprietary receipts from the public	....	875	-875	....	4,516	-4,516	....	3,553	-3,553
Total—Department of Energy	1,346	991	355	14,338	5,979	8,358	12,905	4,549	8,356

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Health and Human Services:									
Public Health Service:									
Food and Drug Administration	$32	(**)	$31	$393	$3	$390	$366	$2	$364
Health Resources and Services Administration:									
Public enterprise funds	2	...	2	27	1	26	47	5	42
Health resources and services	128	...	128	1,377	...	1,377	1,507	...	1,507
Indian health facilities	61	...	61	788	...	788	692	...	692
Other	(**)	...	(**)	(**)	...	(**)	−2	...	−2
Centers for Disease Control	33	...	33	360	...	360	362	...	362
National Institutes of Health:									
Cancer Research	78	...	78	1,024	...	1,024	949	...	949
Heart, Lung, and Blood Research	53	...	53	647	...	647	578	...	578
Arthritis, Diabetes, and Digestive and Kidney Diseases	39	...	39	431	...	431	380	...	380
Neurological and Communicative Disorders and Stroke	24	...	24	306	...	306	267	...	267
Allergy and Infectious Diseases	24	...	24	293	...	293	244	...	244
General Medical Sciences	38	...	38	385	...	385	364	...	364
Child Health and Human Development	22	...	22	257	...	257	228	...	228
Other research institutes	41	...	41	496	...	496	434	...	434
Research resources	15	...	15	228	...	228	219	...	219
Other	25	...	25	90	...	90	88	...	88
Total—National Institutes of Health	359	...	359	4,157	...	4,157	3,750	...	3,750
Alcohol, Drug Abuse, and Mental Health Administration	67	...	67	911	...	911	945	...	945
Office of Assistant Secretary for Health	19	...	19	175	...	175	197	...	197
Total—Public Health Service	702	(**)	701	8,188	4	8,184	7,863	7	7,856
Health Care Financing Administration:									
Intragovernmental funds	...	...	...	...	...	...	(**)	...	(**)
Grants to States for Medicaid	1,440	...	1,440	20,061	...	20,061	18,985	...	18,985
Payments to health care trust funds	71	...	71	17,917	...	17,917	18,779	...	18,779
Program management	22	...	22	125	...	125	92	...	92
Federal hospital insurance trust fund:									
Benefit payments	2,275	...	2,275	41,476	...	41,476	38,002	...	38,002
Administrative expenses and construction	46	...	46	632	...	632	522	...	522
Interest on normalized tax transfers	...	...	...	187	...	187	...	...	...
Total—FHI trust fund	2,321	...	2,321	42,295	...	42,295	38,524	...	38,524
Federal supplementary medical ins. trust fund:									
Benefit payments	1,436	...	1,436	19,473	...	19,473	17,487	...	17,487
Administrative expenses and construction	57	...	57	902	...	902	829	...	829
Total—FSMI trust fund	1,493	...	1,493	20,374	...	20,374	18,317	...	18,317
Total—Health Care Financing Administration	5,346	...	5,346	100,772	...	100,772	94,697	...	94,697

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Health and Human Services—Continued									
Social Security Administration:									
Payments to social security trust funds	$573	...	$573	$6,878	...	$6,878	$21,130	...	$21,130
Special benefits for disabled coal miners	1	...	1	1,057	...	1,057	1,079	...	1,079
Supplemental security income program	71	...	71	8,498	...	8,498	8,724	...	8,724
Assistance payments program	597	...	597	8,346	...	8,346	7,875	...	7,875
Child Support enforcement	-4	...	-4	508	...	508	516	...	516
Low income home energy assistance	30	...	30	2,026	...	2,026	1,993	...	1,993
Refugee and entrant assistance	40	...	40	602	...	602	524	...	524
Payments to states from receipts for child support	(**)	...	(**)	(**)	...	(**)	1	...	1
Federal old-age and survivors insurance trust fund:									
Benefit payments	31	...	31	155,852	...	155,852	148,642	...	148,642
Administrative expenses and construction	134	...	134	1,585	...	1,585	1,552	...	1,552
Payment to railroad retirement account	...	...	...	2,404	...	2,404	2,251	...	2,251
Vocational rehabilitation services	...	...	...	...	...	...	(**)	...	(**)
Interest expense on interfund borrowings	153	...	153	1,883	...	1,883	1,447	...	1,447
Interest on normalized tax transfers	...	...	...	683	...	683	...	...	...
Total—FOASI trust fund	319	...	319	162,406	...	162,406	153,892	...	153,892
Federal disability insurance trust fund:									
Benefit payments	121	...	121	17,775	...	17,775	17,592	...	17,592
Administrative expenses and construction	40	...	40	585	...	585	659	...	659
Payment to railroad retirement account	...	...	...	22	...	22	28	...	28
Vocational rehabilitation services	...	...	...	...	...	...	(**)	...	(**)
Interest on normalized tax transfers	...	...	...	77	...	77	...	...	...
Total—FDI trust fund	161	...	161	18,459	...	18,459	18,279	...	18,279
Total—Social Security Administration	1,789	...	1,789	208,780	...	208,780	214,012	...	214,012
Human Development Services:									
Human services block grant	155	...	155	2,789	...	2,789	2,508	...	2,508
Human development services	179	...	179	1,819	...	1,819	1,790	...	1,790
Family social services	60	...	60	659	...	659	410	...	410
Work incentives	12	...	12	265	...	265	289	...	289
Community services	26	...	26	358	...	358	349	...	349
Other	1	(**)	1	8	$1	7	-1	$1	-2
Total—Human Development Services	433	(**)	433	5,897	1	5,896	5,345	1	5,344
Departmental Management	15	...	15	273	...	273	266	...	266
Proprietary receipts from the public	...	$59	-59	...	4,961	-4,961	...	4,318	-4,318
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal supplementary medical insurance trust fund	-71	...	-71	-16,811	...	-16,811	-14,238	...	-14,238
Payments for tax and other credits[5]:									
Federal old-age and survivors insurance trust fund	-524	...	-524	-6,268	...	-6,268	-18,683	...	-18,683
Federal disability insurance trust fund	-50	...	-50	-610	...	-610	-2,447	...	-2,447
Federal hospital insurance trust fund	...	...	...	-1,106	...	-1,106	-4,541	...	-4,541
Other	-153	...	-153	-1,925	...	-1,925	-1,496	...	-1,496
Total—Department of Health and Human Services	7,487	59	7,428	297,191	4,966	292,224	280,779	4,326	276,453

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Housing and Urban Development:									
Housing Programs:									
Public enterprise funds:									
Federal Housing Administration fund	$207	$240	-$33	$2,757	$3,123	-$366	$2,256	$2,448	-$192
Housing for the elderly or handicapped fund	48	32	16	1,036	375	661	1,088	288	800
Other	4	4	(**)	47	48	-1	44	48	-4
Rent supplement payments	(**)	....	(**)	110	....	110	188	....	188
Homeownership assistance	15	....	15	270	....	270	282	....	282
Rental housing assistance	30	....	30	657	....	657	638	....	638
Low-rent public housing	47	....	47	1,686	....	1,686	1,664	....	1,664
College housing grants	1	....	1	20	....	20	20	....	20
Lower income housing assistance	444	....	444	6,030	....	6,030	4,995	....	4,995
Other	-1	....	-1	(**)	....	(**)	11	....	11
Total—Housing Programs	794	277	517	12,614	3,546	9,068	11,186	2,785	8,402
Public and Indian Housing:									
Low rent housing—loans and other expenses	1,003	13	991	1,705	594	1,111	643	533	111
Payments for operation of low income housing projects	102	....	102	1,135	....	1,135	1,542	....	1,542
Total—Public and Indian Housing	1,106	13	1,093	2,840	594	2,246	2,185	533	1,652
Government National Mortgage Association:									
Special assistance functions fund	22	109	-87	2,498	1,680	818	3,236	2,095	1,142
Emergency mortgage purchase assistance	3	14	-11	317	187	130	283	304	-21
Management and liquidating functions fund	5	9	-3	75	160	-85	98	97	1
Guarantees of mortgage-backed securities	1	11	-10	21	206	-186	8	161	-153
Participation sales fund	-5	....	-5	-65	....	-65	-68	....	-68
Total—Government National Mortgage Association	27	143	-116	2,846	2,233	612	3,556	2,656	900
Community Planning and Development:									
Public enterprise fund	40	8	32	133	148	-15	123	141	-18
Community development grants	300	....	300	3,819	....	3,819	3,554	....	3,554
Urban development action grants	29	....	29	454	....	454	451	....	451
Other	3	....	3	16	....	16	12	....	12
Total—Community Planning and Development	372	8	364	4,422	148	4,274	4,139	141	3,998
Management and Administration	2	....	2	281	....	281	303	....	303
Other	3	(**)	4	40	4	37	71	11	60
Total—Department of Housing and Urban Development	2,304	440	1,865	23,043	6,526	16,517	21,440	6,125	15,315

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of the Interior:									
Land and Minerals Management:									
Bureau of Land Management:									
Management of lands and resources	$46	....	$46	$418	....	$418	$408	....	$408
Payments in lieu of taxes	104	....	104	104	....	104	96	....	96
Payments to states and counties for general purpose fiscal assistance	43	....	43	789	....	789	579	....	579
Other	22	....	22	95	....	95	80	....	80
Minerals Management Service	15	....	15	157	....	157	119	....	119
Office of Surface Mining Reclamation and Enforcement	21	....	21	206	....	206	163	....	163
Total—Land and Minerals Management	251	....	251	1,770	....	1,770	1,445	....	1,445
Water and Science:									
Bureau of Reclamation:									
Construction program	82	$5	77	680	$81	600	665	$86	579
Operation and maintenance	10	....	10	135	....	135	136	....	136
Other	15	....	15	139	....	139	120	....	120
Geological Survey	12	....	12	452	....	452	440	....	440
Bureau of Mines	15	1	14	175	19	156	161	18	142
Total—Water and Science	133	7	127	1,581	99	1,482	1,522	104	1,418
Fish and Wildlife and Parks:									
United States Fish and Wildlife Service	40	....	40	498	....	498	470	....	470
National Park Service	150	....	150	1,111	....	1,111	1,008	....	1,008
Total—Fish and Wildlife and Parks	190	....	190	1,609	....	1,609	1,478	....	1,478
Bureau of Indian Affairs:									
Operation of Indian programs	61	....	61	882	....	882	849	....	849
Construction	8	....	8	124	....	124	133	....	133
Indian tribal funds	34	....	34	434	....	434	458	....	458
Other	5	1	4	63	9	54	56	9	48
Total—Bureau of Indian Affairs	107	1	106	1,503	9	1,494	1,495	9	1,487
Territorial and International Affairs	78	....	78	240	....	240	259	....	259
Departmental Offices	−4	....	−4	73	....	73	72	....	72
Proprietary receipts from the public:									
Receipts from oil and gas leases, national petroleum reserve in Alaska	....	....	....	....	7	−7	....	−32	32
Other	(**)	171	−171	(**)	1,739	−1,739	(**)	1,556	−1,556
Intrabudgetary transactions	....	....	....	−32	....	−32	−65	....	−65
Total—Department of the Interior	755	178	577	6,744	1,855	4,889	6,206	1,637	4,569
Department of Justice:									
General Administration	−7	....	−7	58	....	58	61	....	61
United States Parole Commission	1	....	1	7	....	7	7	....	7
Legal Activities	50	....	50	677	....	677	598	....	598
Interagency Law Enforcement	45	....	45	103	....	103	29	....	29
Federal Bureau of Investigation	44	....	44	916	....	916	824	....	824
Drug Enforcement Administration	18	....	18	282	....	282	260	....	260
Immigration and Naturalization Service	36	....	36	513	....	513	485	....	485
Federal Prison System	36	2	34	528	22	505	449	19	430
Office of Justice Assistance	8	....	8	125	....	125	155	....	155
Other	−2	−5	4	−19	−5	−14	....	(**)	(**)
Total—Department of Justice	229	−3	232	3,188	17	3,171	2,868	20	2,849

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Labor:									
Employment and Training Administration:									
Program administration	$3	...	$3	$77	...	$77	$87	...	$87
Training and employment services	267	...	267	3,196	...	3,196	3,858	...	3,858
Community service employment for older Americans	31	...	31	321	...	321	274	...	274
Federal unemployment benefits and allowances	2	...	2	34	...	34	233	...	233
State unemployment insurance and employment service operation	-56	...	-56	21	...	21	10	...	10
Advances to the unemployment trust fund and other funds	745	...	745	4,182	...	4,182	12,043	...	12,043
Other	[4]-11	...	-11	-136	...	-136	46	...	46
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	981	...	981	16,678	...	16,678	29,070	...	29,070
State administrative expenses	220	...	220	2,311	...	2,311	2,426	...	2,426
Federal administrative expenses	8	...	8	87	...	87	70	...	70
Interest on refunds of taxes	(**)	...	(**)	129	...	129	6	...	6
Repayment of advances from the general fund	5,860	...	5,860	6,580	...	6,580	580	...	580
Interest on advances to the Employment Security Administration account	...	...	...	1	...	1	...	...	...
Railroad-unemployment insurance:									
Railroad unemployment benefits	11	...	11	218	...	218	433	...	433
Administrative expenses	(**)	...	(**)	12	...	12	15	...	15
Payment of interest on advances from railroad retirement account	72	...	72	72	...	72	56	...	56
Total—Unemployment Trust Fund	7,152	...	7,152	26,089	...	26,089	32,655	...	32,655
Total—Employment and Training Administration	8,134	...	8,134	33,784	...	33,784	49,206	...	49,206
Labor-Management Services Administration	4	...	4	56	...	56	51	...	51
Pension Benefit Guaranty Corporation	14	$3	11	152	$161	-10	133	$142	-10
Employment Standards Administration:									
Salaries and expenses	12	...	12	173	...	173	165	...	165
Special benefits	61	...	61	223	...	223	186	...	186
Black lung disability trust fund	288	...	288	865	...	865	851	...	851
Special workers' compensation expenses	3	...	3	44	...	44	36	...	36
Occupational Safety and Health Administration	16	...	16	207	...	207	200	...	200
Mine Safety and Health Administration	11	...	11	150	...	150	151	...	151
Bureau of Labor Statistics	11	...	11	132	...	132	121	...	121
Departmental Management	5	...	5	120	...	120	112	...	112
Proprietary receipts from the public	...	290	-290	...	323	-323	...	4	-4
Intrabudgetary transactions	-6,567	...	-6,567	-10,899	...	-10,899	-12,871	...	-12,871
Total—Department of Labor	1,993	293	1,700	25,006	484	24,522	38,341	146	38,194
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	74	...	74	1,031	...	1,031	1,052	...	1,052
Acquisition, operation, and maintenance of buildings abroad	10	...	10	198	...	198	176	...	176
Payment to Foreign Service retirement and disability fund	228	...	228	337	...	337	314	...	314
Foreign Service retirement and disability fund	20	...	20	212	...	212	199	...	199
Other	4	...	4	22	...	22	15	...	15
Total—Administration of Foreign Affairs	336	...	336	1,800	...	1,800	1,756	...	1,756

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of State—Continued									
International Organizations and Conferences	$12	.....	$12	$580	.....	$580	$482	.....	$482
International Commissions	1	.....	1	23	.....	23	27	.....	27
Migration and Refugee Assistance	46	.....	46	336	.....	336	321	.....	321
International Narcotics Control	5	.....	5	33	.....	33	37	.....	37
Other	3	.....	3	13	.....	13	5	.....	5
Proprietary receipts from the public	.....	$1	-1	.....	-$22	22	.....	$6	-6
Intrabudgetary transactions	-232	.....	-232	-380	.....	-380	-355	.....	-355
Total—Department of State	170	1	169	2,405	-22	2,428	2,273	6	2,267
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,147	.....	1,147	10,227	.....	10,227	8,718	.....	8,718
Other	-1	5	-6	18	5	13	-15	3	-18
Other programs	23	.....	23	329	.....	329	249	.....	249
Total—Federal Highway Administration	1,170	5	1,164	10,574	5	10,569	8,952	3	8,949
National Highway Traffic Safety Administration:									
Operations and research	3	.....	3	56	.....	56	51	.....	51
Trust fund share of highway safety programs	19	.....	19	140	.....	140	130	.....	130
Other	-6	.....	-6	2	.....	2	7	.....	7
Federal Railroad Administration:									
Public enterprise funds	9	8	1	132	81	50	145	80	65
Northeast corridor improvement program	24	.....	24	241	.....	241	296	.....	296
Grants to National Railroad Passenger Corporation	2	.....	2	1,957	.....	1,957	665	.....	665
Other	6	.....	6	255	.....	255	381	.....	381
Total—Federal Railroad Administration	41	8	33	2,584	81	2,503	1,487	80	1,407
Urban Mass Transportation Administration:									
Formula grants	212	.....	212	1,395	.....	1,395	2,361	.....	2,361
Discretionary grants	17	.....	17	233	.....	233	3	.....	3
Other	169	.....	169	2,151	.....	2,151	1,345	.....	1,345
Federal Aviation Administration:									
Operations	207	.....	207	2,313	.....	2,313	1,427	.....	1,427
Other	21	.....	21	141	(**)	140	185	(**)	185
Airport and airway trust fund:									
Grants-in-aid for airports	81	.....	81	694	.....	694	453	.....	453
Facilities and equipment	29	.....	29	268	.....	268	248	.....	248
Research, engineering and development	15	.....	15	146	.....	146	71	.....	71
Operations	(**)	.....	(**)	257	.....	257	1,020	.....	1,020
Total—Airport and airway trust fund	125	.....	125	1,365	.....	1,365	1,792	.....	1,792
Total—Federal Aviation Administration	353	.....	353	3,819	.....	3,819	3,404	.....	3,404

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Transportation—Continued									
Coast Guard:									
Operating expenses	$143		$143	$1,657		$1,657	$1,487		$1,487
Acquisition, construction, and improvements	72		72	468		468	484		484
Retired pay	25		25	311		311	292		292
Other	-9	(**)	-9	97	$5	92	149	$5	143
Total—Coast Guard	231	(**)	231	2,533	5	2,529	2,411	5	2,406
Maritime Administration:									
Public enterprise funds	7	$8	-1	199	177	22	125	115	9
Ship construction	1		1	14		14	85		85
Operating-differential subsidies	80		80	384		384	368		368
Other	8		8	87		87	87		87
Other	-12	1	-14	74	13	61	91	12	80
Proprietary receipts from the public		-6	6		54	-54		74	-74
Intrabudgetary transactions	(**)		(**)	-5		-5	-2		-2
Total—Department of Transportation	2,294	17	2,277	24,239	335	23,904	20,905	289	20,616
Department of the Treasury:									
Office of the Secretary	-32		-32	-63		-63	-448		-448
Office of Revenue Sharing:									
Salaries and expenses	1		1	7		7	6		6
General Revenue Sharing				4,567		4,567	4,614		4,614
Federal Law Enforcement Training Center	2		2	17		17	16		16
Financial Management Service:									
Salaries and expenses	19		19	223		223	234		234
Claims, judgements, and relief acts	22		22	236		236	563		563
Advances to the railroad retirement account				525		525	1,133		1,133
Payments to synthetic fuels corporation	1		1	16		16	15		15
Other	5		5	20		20	15		15
Total—Financial Management Service	47		47	1,020		1,020	1,960		1,960
Bureau of Alcohol, Tobacco and Firearms	13		13	158		158	142		142
United States Customs Service	43		43	695		695	649		649
Bureau of Engraving and Printing	(**)		(**)	-17		-17	-12		-12
Bureau of the Mint	164		164	80		80	50		50
Bureau of the Public Debt	12		12	181		181	167		167
Internal Revenue Service:									
Salaries and expenses	8		8	96		96	128		128
Processing tax returns	73		73	870		870	893		893
Examinations and appeals	97		97	1,251		1,251	1,069		1,069
Investigation, collection and taxpayer service	76		76	1,019		1,019	817		817
Payment where credit exceeds liability for tax	12		12	1,193		1,193	1,213		1,213
Refunding internal revenue collections, interest	92		92	1,301		1,301	1,954		1,954
Internal revenue collections for Puerto Rico	28		28	365		365	316		316
Other	(**)	(**)	(**)	3	3	(**)	2	2	(**)
Total—Internal Revenue Service	387	(**)	387	6,098	3	6,095	6,393	2	6,391

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of the Treasury—Continued									
United States Secret Service	$23	....	$23	$267	....	$267	$232	....	$232
Comptroller of the Currency	11	$1	10	161	$160	(**)	157	$155	2
Interest on the public debt:									
Public issues (accrual basis)	11,912	....	11,912	129,003	....	129,003	108,367	....	108,367
Special issues (cash basis)	432	....	432	24,835	....	24,835	20,446	....	20,446
Total—Interest on the public debt	12,343	....	12,343	153,838	....	153,838	128,813	....	128,813
Proprietary receipts from the public	....	204	-204	....	3,331	-3,331	....	3,305	-3,305
Receipts from off-budget Federal entities	....	1,739	-1,739	....	15,378	-15,378	....	14,347	-14,347
Intrabudgetary transactions	-499	....	-499	-7,172	....	-7,172	-8,681	....	-8,681
Total—Department of the Treasury	12,515	1,943	10,572	159,837	18,873	140,964	134,057	17,809	116,248
Environmental Protection Agency:									
Salaries and expenses	46	....	46	585	....	585	541	....	541
Research and development	18	....	18	164	....	164	183	....	183
Abatement, control, and compliance	35	....	35	418	....	418	455	....	455
Construction grants	234	....	234	2,623	....	2,623	2,983	....	2,983
Hazardous substance response trust fund	4	....	4	267	....	267	134	....	134
Other	(**)	(**)	(**)	49	1	49	44	1	43
Proprietary receipts from the public	....	(**)	(**)	....	4	-4	....	(**)	(**)
Intrabudgetary transactions	....	....	....	-44	....	-44	-40	....	-40
Total—Environmental Protection Agency	338	(**)	338	4,061	4	4,057	4,300	1	4,299
General Services Administration:									
Real property activities	119	....	119	9	....	9	-101	....	-101
Personal property activities	-57	....	-57	78	....	78	76	....	76
Office of Information Resources Management	28	....	28	-2	....	-2	76	....	76
Records activities	6	(**)	6	86	(**)	86	90	3	88
Federal property resources activities	14	....	14	105	....	105	-203	....	-203
General activities	13	....	13	141	(**)	140	119	(**)	119
Proprietary receipts from the public	....	79	-79	....	139	-139	....	-90	90
Total—General Services Administration	124	79	44	416	139	277	58	-87	145
National Aeronautics and Space Administration:									
Research and development	50	....	50	2,792	....	2,792	5,316	....	5,316
Space flight, control, and data communications	340	....	340	2,915	....	2,915	....	....	....
Construction of facilities	12	....	12	109	....	109	108	....	108
Research and program management	100	....	100	1,232	....	1,232	1,240	....	1,240
Other	....	(**)	(**)	....	(**)	(**)	(**)	(**)	(**)
Total—National Aeronautics and Space Administration	503	(**)	502	7,048	(**)	7,048	6,664	(**)	6,664

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Office of Personnel Management:									
Salaries and expenses	-$14	...	-$14	$99	...	$99	$79	...	$79
Government payment for annuitants, employees health benefits	121	...	121	1,392	...	1,392	1,215	...	1,215
Payment to Civil Service retirement and disability fund	15,357	...	15,357	15,358	...	15,358	15,308	...	15,308
Civil Service retirement and disability fund	2,000	...	2,000	21,891	...	21,891	20,796	...	20,796
Employees health benefits fund	532	$534	-2	6,518	$6,568	-50	5,661	$5,857	-196
Employees life insurance fund	77	67	10	753	1,457	-704	788	1,368	-580
Retired employees health benefits fund	1	1	(**)	17	17	(**)	16	17	-(**)
Other	4	(**)	4	-2	(**)	-3	-4	(**)	-4
Intrabudgetary transactions:									
Civil Service retirement and disability fund:									
General fund contributions	-15,357	...	-15,357	-15,358	...	-15,358	-15,308	...	-15,308
Other	-2	...	-2	-34	...	-34	-32	...	-32
Total—Office of Personnel Management	2,719	602	2,116	30,633	8,043	22,590	28,519	7,241	21,278
Small Business Administration:									
Public enterprise funds:									
Business loan and investment fund	254	106	148	1,192	802	390	1,315	723	592
Disaster loan fund	30	46	-15	404	823	-419	424	854	-430
Other	5	1	3	41	16	26	42	12	29
Salaries and expenses	18	...	18	258	...	258	288	...	288
Other	...	(**)	(**)	...	(**)	(**)	...	...	...
Total—Small Business Administration	307	153	154	1,896	1,641	255	2,069	1,589	479
Veterans Administration:									
Public enterprise funds:									
Loan guaranty revolving fund	128	29	99	1,523	1,153	370	1,212	973	239
Direct loan revolving fund	2	5	-4	26	71	-45	32	172	-140
Other	32	50	-18	431	480	-49	401	474	-74
Compensation and pensions	40	...	40	13,918	...	13,918	13,860	...	13,860
Readjustment benefits	36	...	36	1,470	...	1,470	1,714	...	1,714
Medical care	648	...	648	8,124	...	8,124	7,602	...	7,602
Medical and prosthetic research	14	...	14	186	...	186	152	...	152
General operating expenses	45	...	45	704	...	704	674	...	674
Construction projects	41	...	41	475	...	475	429	...	429
Post-Vietnam Era Veterans education account	11	...	11	156	...	156	140	...	140
Insurance Funds:									
National service life	68	...	68	922	...	922	891	...	891
United States government life	4	...	4	52	...	52	60	...	60
Veterans special life	5	4	1	69	127	-58	60	117	-56
Other	-1	...	-1	84	...	84	85	...	85
Proprietary receipts from the public:									
National service life	...	32	-32	...	441	-441	...	446	-446
United States government life	...	(**)	(**)	...	(**)	(**)	...	1	-1
Other	...	15	-15	...	231	-231	...	247	-247
Intrabudgetary transactions	-5	...	-5	-42	...	-42	-66	...	-66
Total—Veterans Administration	1,067	135	932	28,100	2,504	25,596	27,245	2,429	24,816

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Independent Agencies:									
Action	$9	(**)	$9	$133	(**)	$133	$126	(**)	$126
Board for International Broadcasting	15	....	15	105	....	105	91	....	91
Civil Aeronautics Board	4	....	4	62	(**)	62	78	....	78
Consumer Product Safety Commission	2	(**)	2	34	(**)	34	33	(**)	33
Corporation for Public Broadcasting	....	....	....	138	....	138	137	....	137
District of Columbia:									
Federal payment	....	....	....	486	....	486	427	....	427
Loans and repayable advances	....	....	....	115	$31	84	295	$29	266
Equal Employment Opportunity Commission	12	$28	-16	152	9	143	143	-9	152
Export-Import Bank of the United States	678	249	429	4,485	3,418	1,068	4,526	3,948	578
Federal Communications Commission	7	(**)	7	87	(**)	87	82	(**)	82
Federal Deposit Insurance Corporation	850	1,231	-381	6,842	7,089	-248	3,194	3,808	-613
Federal Emergency Management Agency:									
Public enterprise funds	30	28	1	521	363	159	476	323	154
Salaries and expenses	5	....	5	125	....	125	98	....	98
Emergency management and planning assistance	23	....	23	248	....	248	176	....	176
Emergency food distribution and shelter program	(**)	....	(**)	58	....	58	79	....	79
Federal Home Loan Bank Board:									
Public enterprise funds:									
Federal Home Loan Bank Board revolving fund	5	4	2	75	74	1	130	131	-1
Federal Savings and Loan Insurance Corp. fund	132	67	66	1,007	1,569	-562	856	1,308	-452
Interest adjustment payments	....	....	....	....	....	....	(**)	....	(**)
Federal Trade Commission	5	....	5	66	(**)	66	65	....	65
Intragovernmental Agencies:									
Washington Metropolitan Area Transit Authority	....	....	....	33	....	33	50	....	50
Other	1	(**)	(**)	8	2	6	8	2	5
Interstate Commerce Commission	4	....	4	56	....	56	65	....	65
Legal Services Corporation	23	....	23	271	....	271	234	....	234
Merit Systems Protection Board	3	(**)	3	26	-2	28	26	2	24
National Credit Union Administration:									
Central liquidity facility	81	7	74	678	453	225	1,001	1,087	-86
Other	10	6	4	85	117	-32	72	164	-92
National Foundation on the Arts and the Humanities:									
National Endowment for the Arts	16	(**)	16	145	....	145	126	(**)	126
National Endowment for the Humanities	14	....	14	140	....	140	134	....	134
Institute of Museum Services	(**)	....	(**)	17	....	17	9	....	9
National Labor Relations Board	9	(**)	9	130	(**)	130	123	....	123
National Science Foundation	123	(**)	123	1,198	(**)	1,198	1,055	....	1,055
National Transportation Safety Board	2	(**)	2	21	-19	40	19	19	(**)
Nuclear Regulatory Commission	35	(**)	35	462	(**)	462	515	....	515
Panama Canal Commission	31	33	-2	381	406	-25	418	398	19
Postal Service (payment to the Postal Service fund)	(**)	1	-2	879	1	877	789	....	789

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Independent Agencies—Continued									
Railroad Retirement Board:									
Federal windfall subsidy	$34	...	$34	$413	...	$413	$440	...	$440
Payment to railroad unemployment insurance trust fund	-73	...	-73	-73	...	-73	126	...	126
Milwaukee railroad restructuring, administration	1	...	1	1	...	1	13	...	13
Railroad retirement accounts:									
Benefits payments and claims	476	...	476	5,681	...	5,681	5,608	...	5,608
Advances to the railroad retirement account from the FOASI trust fund	...	...	...	...	...	...	-181	...	-181
Advances to the railroad retirement account from the FDI trust fund	(**)	...	(**)	-1	...	-1	-19	...	-19
Disbursements for the payment of FOASI benefits	50	...	50	-1	...	-1	180	...	180
Disbursements for the payment of FDI benefits	4	...	4	(**)	...	(**)	19	...	19
Administrative expenses	3	...	3	44	...	44	43	...	43
Interest on refunds of taxes	1	...	1	4	...	4	(**)	...	(**)
Other	...	...	...	...	...	...	...	...	...
Proprietary receipts from the public	...	(**)	(**)	...	$1	-1	...	$1	-1
Intrabudgetary transactions:									
Railroad retirement account:									
Payments to railroad retirement trust funds	...	...	...	-2,392	...	-2,392	-2,258	...	-2,258
Interest transferred to federal hospital insurance trust fund	...	...	...	43	...	43	49	...	49
Interest on advances to railroad unemployment insurance account	-72	...	-72	-72	...	-72	-56	...	-56
Total—Railroad Retirement Board	423	(**)	423	3,649	1	3,647	3,964	1	3,963
Securities and Exchange Commission	7	(**)	7	92	(**)	92	90	(**)	90
Smithsonian Institution	17	(**)	17	211	(**)	211	194	(**)	194
Tennessee Valley Authority	456	$478	-22	5,192	4,840	351	5,359	4,539	820
United States Information Agency	69	(**)	69	574	-1	575	510	2	508
United States Railway Association	(**)	...	(**)	2	...	2	4	...	4
Other independent agencies	20	3	17	374	34	340	354	27	327
Total—Independent agencies	3,118	2,134	984	29,363	18,386	10,977	26,132	15,782	10,350

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Undistributed offsetting receipts:									
Other interest		$2	-$2		$18	-$18			
Federal employer contributions to retirement and social insurance funds:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund				(**)		(**)	(**)		(**)
The Judiciary:									
Judicial survivors annuity fund	(**)		(**)	-$2		-2	-$2		-$2
Department of Health and Human Services:									
Federal old-age and survivors insurance trust fund	-$167		-167	-1,852		-1,852	-1,534		-1,534
Federal disability insurance trust fund	-17		-17	-192		-192	-244		-244
Federal hospital insurance trust fund	-106		-106	-1,306		-1,306	-1,054		-1,054
Department of State:									
Foreign Service retirement and disability fund	-3		-3	-37		-37	-36		-36
Office of Personnel Management:									
Civil Service retirement and disability fund	-275		-275	-3,522		-3,522	-3,380		-3,380
Receipts from off-budget Federal agencies:									
Office of Personnel Management:									
Civil Service retirement and disability fund	-990		-990	-1,848		-1,848	-1,872		-1,872
Subtotal	-1,557		-1,557	-8,760		-8,760	-8,122		-8,122
Interest credited to certain Government Accounts:									
The Judiciary:									
Judicial survivors annuity fund				-8		-8	-7		-7
Department of Defense:									
Civil:									
Soldiers' and Airmen's Home permanent fund	-5		-5	-23		-23	-18		-18
Department of Health and Human Services:									
Federal old-age and survivors insurance trust fund	-24		-24	-2,752		-2,752	-1,300		-1,300
Federal disability insurance trust fund	-2		-2	-558		-558	-436		-436
Federal hospital insurance trust fund	-7		-7	-1,644		-1,644	-1,580		-1,580
Federal supplementary medical insurance trust fund	-6		-6	-807		-807	-680		-680
Department of Labor:									
Unemployment trust fund	-32		-32	-781		-781	-887		-887
Department of State:									
Foreign Service retirement and disability fund	(**)		(**)	-178		-178	-137		-137
Department of Transportation:									
Airport and airway trust fund	-3		-3	-546		-546	-533		-533
Highway trust fund	-49		-49	-1,116		-1,116	-1,078		-1,078
Environmental Protection Agency:									
Post-closure liability trust fund	(**)		(**)	-1		-1			
Office of Personnel Management fund:									
Civil Service retirement and disability fund	-26		-26	-10,813		-10,813	-9,330		-9,330
Veterans Administration:									
United States government life insurance fund	(**)		(**)	-23		-23	-25		-25
National service life insurance fund	-1		-1	-806		-806	-754		-754
Independent Agencies:									
Railroad Retirement Board:									
Railroad retirement account	-35		-35	-169		-169	-54		-54
Other	-53		-53	-111		-111	-131		-131
Subtotal	-243		-243	-20,333		-20,333	-16,952		16,952

See footnotes on page 3.

TABLE III—RECEIPTS AND OUTLAYS—Continued (In millions)

Classification of OUTLAYS—Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Undistributed offsetting receipts—Continued									
Rents and royalties on the outer continental shelf lands	(**)	$602	-$602	....	$6,694	-$6,694	....	$10,492	-$10,492
Total—Undistributed offsetting receipts	-$1,801	605	-2,405	-$29,094	6,712	-35,805	-$25,074	10,492	-35,565
Total budget outlays	62,525	11,292	51,234	960,919	119,119	841,800	911,889	115,972	795,916
Off-budget Federal entities:									
Federal Financing Bank	3,740	3,273	467	38,980	31,703	7,277	37,072	26,667	10,404
Petroleum acquisition and transportation, strategic petroleum reserve	165	....	165	2,329	....	2,329	1,641	....	1,641
Postal Service	2,781	1,362	1,419	27,251	26,890	360	25,804	25,482	322
Rural electrification and telephone revolving fund	201	278	-77	1,091	1,092	-1	1,163	1,165	-2
Rural Telephone Bank	7	8	(**)	164	119	45	163	104	59
Synthetic Fuels Corporation fund	1	1	....	19	19	....	17	17	....
U.S. Railway Association	....	....	....	3	17	-14	6	72	-67
Total—off-budget Federal entities	6,895	4,921	1,974	69,836	59,840	9,996	65,864	53,507	12,357
Total—outlays	69,421	16,213	53,208	1,030,755	178,959	851,796	977,753	169,479	808,274
TOTAL BUDGET AND OFF-BUDGET			(Net Totals)			(Net Totals)			(Net Totals)
Budget receipts			68,019			666,457			600,562
Budget outlays			-51,234			-841,800			-795,916
Budget surplus (+) or deficit (-)			+16,785			-175,342			-195,354
Off-budget surplus (+) or deficit (-)			-1,974			-9,996			-12,357
Total surplus (+) or deficit (-)			+14,811			-185,339			-207,711

See footnotes on page 3.

MEMORANDUM

Receipts offset against outlays (In millions)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	$36,752	$39,876
Receipts from off-budget Federal entities	15,378	14,347
Intrabudgetary transactions	96,795	110,983
Total receipts offset against outlays	148,926	165,207

TABLE IV—MEANS OF FINANCING (In millions)

Classification (Assets and Liabilities Directly Related to Budget)	Net Transactions (–) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
LIABILITY ACCOUNTS						
Borrowing from the public:						
Public debt securities, issued under general financial authorities:						
Obligations of the United States, issued by:						
United States Treasury	$11,618	$195,056	$235,176	$1,377,211	$1,560,649	$1,572,267
Federal Financing Bank	....	....	....	(**)	(**)	(**)
Total public debt securities	11,618	195,056	235,176	1,377,211	1,560,649	1,572,267
Agency securities, issued under special financing authorities (See Schedule B. For other agency borrowing, see Schedule C.)	–10	–194	–277	4,675	4,492	4,481
Total federal securities	11,608	194,862	234,899	1,381,886	1,565,140	1,576,748
Deduct:						
Federal securities held as investments of government accounts (See Schedule D)	7,440	24,045	22,475	240,114	256,719	264,159
Total borrowing from the public	4,167	170,817	212,424	1,141,771	1,308,421	1,312,589
Accrued interest payable to the public	8,257	9,098	3,052	18,260	19,102	27,359
Allocations of special drawing rights	–86	–283	–76	5,178	4,981	4,895
Deposit funds	–291	1,930	2,209	10,362	12,583	12,292
Miscellaneous liability accounts (includes checks outstanding etc.)	–5,658	–1,124	2,418	11,817	16,352	10,693
Total liability accounts	6,389	180,439	220,027	1,187,389	1,361,439	1,367,828
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash[6]:						
Federal Reserve account	4,485	–8,043	5,583	16,557	4,029	8,514
Tax and loan note accounts	14,615	1,413	2,311	20,500	7,298	21,913
Balance	19,099	–6,631	7,893	37,057	11,327	30,426
Special drawing rights:						
Total holdings	–98	–74	819	5,628	5,652	5,554
SDR certificates issued to Federal Reserve Banks	....	....	–400	–4,618	–4,618	–4,618
Balance	–98	–74	419	1,010	1,034	936
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	....	5,528	....	14,171	19,699	19,699
Maintenance of value adjustments	–316	–951	–195	–847	–1,483	–1,799
Letter of credit issued to IMF	29	–2,451	3,058	–5,541	–8,021	–7,992
Dollar deposits with the IMF	[7]–29	–10	–7	–40	–21	–50
Receivable/Payable (–) for interim maintenance of value adjustments	135	249	–326	130	244	379
Balance	–181	2,365	2,530	7,872	10,418	10,237
Loans to International Monetary Fund	–34	–167	589	1,531	1,398	1,364
Other cash and monetary assets	191	–1,129	–1,542	8,678	7,357	7,548
Total cash and monetary assets	18,978	–5,636	9,889	56,148	31,535	50,512
Miscellaneous asset accounts	[7]2,492	1,476	3,093	14,611	13,596	16,088
Total asset accounts	21,469	–4,160	12,981	70,760	45,131	66,600
Excess of liabilities (+) or assets (–)	–15,080	+184,599	+207,046	+1,116,629	+1,316,308	+1,301,228
Transactions not applied to current year's surplus or deficit (See Schedule A for details)	269	740	666	....	471	740
Total budget and off-budget financing [Financing of deficit (+) or disposition of surplus (–)]	–14,811	+185,339	+207,711	+1,116,629	+1,316,779	+1,301,968

See footnotes on page 3.

TABLE IV—SCHEDULE A—ANALYSIS OF CHANGE IN EXCESS OF LIABILITIES (In millions)

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	$1,316,308	$1,116,629	$909,583
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Excess of liabilities beginning of period (current basis)	1,316,308	1,116,629	909,583
Budget surplus (−) or deficit:			
Based on composition of unified budget in prior fiscal year	−16,785	175,342	195,354
Changes in composition of unified budget	....	....	....
Budget surplus (−) or deficit (Table III)	−16,785	175,342	195,354
Off-budget surplus (−) or deficit (Table III)	1,974	9,996	12,357
Total budget surplus (−) or deficit (Table III)	−14,811	185,339	207,711
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−28	−498	−477
Increment on gold	....	....	....
Proceeds from currency	....	....	....
Profit on sale of gold	−242	−242	−188
Net gain (−)/loss for IMF loan valuation adjustment	....	....	....
Total—transactions not applied to current year's surplus or deficit	−269	−740	−666
Excess of liabilities close of period	1,301,228	1,301,228	1,116,629

TABLE IV—SCHEDULE B—AGENCY SECURITIES, ISSUED UNDER SPECIAL FINANCING AUTHORITIES (In millions)

Classification	Net Transactions (−) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank	−$9	−$31	−$23	$64	$43	$34
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family Housing Mortgages	−9	−110	−124	264	162	153
Department of Housing and Urban Development:						
Federal Housing Administration	−7	−67	−129	206	146	140
Department of Interior:						
Bureau of Land Management	14	14	....	....	....	14
Department of Transportation:						
Coast Guard:						
Family Housing Mortgages	(**)	(**)	(**)	(**)	(**)	(**)
Obligations not guaranteed by the United States, issued by:						
Department of Defense:						
Homeowners Assistance Mortgages	(**)	(**)	(**)	(**)	(**)	(**)
Department of Housing and Urban Development:						
Government National Mortgage Association	....	....	....	2,165	2,165	2,165
Independent Agencies:						
Postal Services	....	....	....	250	250	250
Tennessee Valley Authority	....	....	....	1,725	1,725	1,725
Total agency securities	−10	−194	−277	4,675	4,492	4,481

See footnotes on page 3.

TABLE IV—SCHEDULE C (MEMORANDUM)—AGENCY BORROWING FINANCED THROUGH ISSUE OF PUBLIC DEBT SECURITIES (In millions)

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Comparable Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Commodity Credit Corporation	$264	−$2,798	$2,599	$21,407	$18,345	$18,609
Commerce, Fishing Vessels NOAA	....	9	7	9	18	18
Export-Import Bank of United States	....	....	−4	....	....	....
Federal Emergency Management Agency:						
National Insurance Development Fund	....	5	20	50	55	55
National flood insurance fund	....	163	50	50	213	213
Federal Financing Bank	773	8,754	11,725	136,082	144,063	144,836
Federal Housing Administration:						
General insurance	−50	−220	−87	2,010	1,840	1,790
Special risk insurance	−30	−40	10	2,024	2,014	1,984
General Services Administration:						
Pennsylvania Avenue Development Corporation	−6	−1	−1	56	61	55
Government National Mortgage Association:						
Emergency home purchase assistance fund	−9	134	−21	2,265	2,408	2,399
Special assistance functions	111	1,070	1,072	8,816	9,775	9,886
Rural Communication Development Fund	....	4	7	14	18	18
Rural Electrification Administration	....	....	....	7,865	7,865	7,865
Rural Telephone Bank	....	30	42	721	751	751
Secretary of Agriculture, Farmers Home Administration:						
Rural housing insurance fund	275	760	380	2,621	3,106	3,381
Agricultural credit insurance fund	....	1,561	550	2,925	4,486	4,486
Rural development insurance fund	45	241	230	1,275	1,471	1,516
Secretary of Education:						
College housing loans	....	....	....	2,687	2,687	2,687
Secretary of Energy:						
Bonneville Power Administration	210	240	255	1,165	1,195	1,405
Secretary of Housing and Urban Development:						
Housing for the Elderly and Handicapped	50	665	881	3,711	4,326	4,376
Low-Rent Public Housing	1,000	1,000	....	....	....	1,000
New communities guaranty:						
Title IV	....	−8	....	8	....	....
Title VII	....	−376	27	376	....	....
Urban Renewal Fund	8	8	−50	....	....	8
Secretary of the Interior:						
Bureau of Mines, helium fund	....	....	....	252	252	252
Railroad Retirement Account	148	2,279	....	....	2,131	2,279
Secretary of Transportation:						
Aircraft Purchase Loan Guarantee Program	−102	−79	79	79	102	....
Rail Passenger Service Act	....	....	....	....	....	....
Railroad Revitalization and Improvement	....	−1	−10	1	....	....
Rail Service Assistance	....	−6	....	6	....	....
Regional Rail Reorganization	....	−199	68	263	64	64
Smithsonian Institution:						
John F. Kennedy Center parking facilities	....	....	....	20	20	20
Tennessee Valley Authority	....	....	....	150	150	150
Veterans Administration:						
Veterans direct loan program	....	....	....	1,730	1,730	1,730
Total Agency Borrowing from the Treasury Financed through issues of Public Debt Securities	*2,687*	*13,195*	*17,829*	*198,638*	*209,146*	*211,833*
Borrowing from the Federal Financing Bank:						
Export-Import Bank of the United States	126	1,015	722	14,676	15,563	15,690
National Credit Union Administration	74	226	−85	44	195	269
Postal Service	....	−67	−67	1,154	1,087	1,087
Tennessee Valley Authority	130	320	830	13,115	13,305	13,435
U.S. Railway Association	....	−73	−69	125	52	51
Total Borrowing from the Federal Financing Bank	*330*	*1,421*	*1,331*	*29,114*	*30,202*	*30,532*

Note: Includes only amounts loaned to Federal Agencies in lieu of Agency Debt issuance and excludes Federal Financing Bank purchase of loans made or guaranteed by Federal Agencies. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to Agencies in lieu of Agencies borrowing directly through Treasury or issuing their own securities.

See footnotes on page 3.

TABLE IV—SCHEDULE D—INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In millions)

Classification	Net Purchases or Sales (−)			Securities Held as Investments Curent Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal Funds:						
Department of Agriculture:						
Agency securities	...	...	...	...	...	...
Department of Commerce	−$3	−$1	$4	$8	$10	$6
Department of Energy	...	...	...	...	...	...
Department of Health and Human Services	(**)	2	1	2	4	4
Department of Housing and Urban Development:						
Federal Housing Administration:						
Federal housing administration fund:						
Public debt securities	−22	427	59	2,638	3,087	3,065
Agency securities	−2	−5	−17	144	142	140
Government National Mortgage Association:						
Emergency mortgage purchase assistance:						
Agency securities	...	...	...	11	11	11
Special assistance function fund:						
Public debt securities	...	...	−1	...	...	...
Agency securities	−2	−13	−30	24	13	11
Management and liquidating functions fund:						
Public debt securities	2	84	...	...	81	84
Agency securities	(**)	−1	−17	2	1	1
Guarantees of Mortgage-Backed Securities:						
Public debt securities	10	185	152	532	707	717
Agency securities	...	1	1	67	67	67
Participation sales fund:						
Public debt securities	200	433	201	1,343	1,576	1,776
Agency securities	...	...	...	12	12	12
Housing Management:						
Community disposal operations fund:						
Agency securities	...	...	...	(**)	(**)	(**)
Department of the Interior	−167	823	897	5,705	6,695	6,528
Department of Labor	−11	−1	20	285	295	284
Department of Transportation	2	−1	4	252	250	252
Department of the Treasury	−12	729	−497	2,514	3,255	3,243
Veterans Administration:						
Veterans reopened insurance fund	15	42	66	590	617	632
Independent Agencies:						
Emergency Loan Guarantee Board	...	...	...	...	...	...
Export-Import Bank of the United States	−316	−84	112	112	343	27
Federal Emergency Mangement Agency:						
National insurance development fund	...	...	...	...	...	...
Federal Savings and Loan Insurance Corporation:						
Public debt securities	−67	562	451	5,609	6,238	6,172
Agency securities	...	...	...	67	67	67
National Credit Union Administration	−4	32	92	293	329	325
Tennessee Valley Authority:						
Agency securities	...	...	−80	...	...	...
Other	38	87	98	894	943	981
Total public debt securities	−335	3,320	1,658	20,776	24,431	24,096
Total agency securities	−4	−17	−144	327	314	310
Total Federal funds	−339	3,303	1,514	21,103	24,745	24,406
Trust Funds:						
Legislative Branch:						
United States Tax Court	...	(**)	(**)	1	1	1
Library of Congress	(**)	1	...	1	3	2
The Judiciary:						
Judicial Survivors Annuity Fund	3	10	8	82	88	91
Funds Appropriated to the President	(**)	1	−1	...	1	1
Department of Agriculture	5	−48	(**)	108	56	60
Department of Commerce	(**)	(**)	...	(**)	(**)	...
Department of Defense	−3	42	36	95	140	138
Department of Health and Human Services:						
Federal old-age and survirors insurance trust fund:						
Public debt securities	6,114	1,721	14,026	25,503	21,110	27,224
Agency securities	...	...	−455	...	...	...
Federal disability insurance trust fund	395	−633	−1,464	5,288	4,261	4,656
Federal hospital insurance trust fund:						
Public debt securities	1,117	3,468	−7,740	13,059	15,410	16,527
Agency securities	...	...	455	455	455	455
Federal supplementary medical insurance trust fund	−1,153	2,159	1,084	6,958	10,270	9,117
Other	1	6	6	21	25	27

See footnotes on page 3.

TABLE IV—SCHEDULE D—INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In millions)

Classification	Net Purchases or Sales (−)			Securities Held as Investments Curent Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust funds—Continued						
Department of the Interior	$9	−$187	$66	$401	$205	$214
Department of Labor:						
Unemployment trust fund	−1,057	4,001	−1,248	8,396	13,454	12,397
Other	11	6	4	17	13	23
Department of State:						
Foreign service retirement and disability fund	222	424	364	1,554	1,756	1,978
Other	−1	−1	(**)	1	1	(**)
Department of Transportation:						
Airport and airway trust fund	120	1,640	925	4,794	6,313	6,434
Highway trust fund	−837	1,359	732	9,481	11,677	10,840
Other	(**)	(**)	(**)	(**)	(**)	(**)
Department of the Treasury	−11	(**)	−5	84	94	84
Environmental Protection Agency	57	108	167	577	628	685
General Services Administration	(**)	1	1	4	5	5
Office of Personnel Management:						
Civil Service Retirement and Disability Fund:						
Public Debt Securities	3,341	2,468	13,503	109,361	108,488	111,829
Agency Securities	....	....	....	175	175	175
Employees Health Benefits Fund	−3	59	190	854	916	913
Employees Life Insurance Fund	−11	707	579	5,259	5,976	5,966
Retired Employees Health Benefits Fund	....	(**)	....	1	1	1
Veterans Administration:						
Government life insurance fund	−4	−28	−33	323	298	294
National service life insurance fund:						
Public debt securities	−34	330	319	8,630	8,994	8,960
Agency securities	....	....	....	135	135	135
Veterans special life insurance fund	−1	59	56	817	876	875
General Post Fund National Homes	1	4	−2	3	6	7
Independent Agencies:						
Federal Deposit Insurance Corporation	442	243	618	13,952	13,754	14,195
Harry S. Truman Memorial Scholarship Trust Fund	....	2	2	42	44	44
Japan—United States Friendship Commission	(**)	(**)	−1	18	17	17
Railroad Retirement Board	−16	2,768	−891	328	3,112	3,097
Other	5	5	2	1	1	6
Total public debt securities	8,715	20,696	21,303	216,013	227,994	236,709
Total agency securities	....	....	....	765	765	765
Total trust funds	8,715	20,696	21,303	216,778	228,759	237,474
Off-budget Federal entities:						
Federal Financing Bank	....	....	....	....	....	....
Postal Service	−936	47	−342	2,230	3,213	2,277
Rural electrification and telephone revolving fund	....	−2	....	3	1	1
Total public debt securities	−936	45	−342	2,233	3,215	2,279
Total Off-budget Federal entities	−936	45	−342	2,233	3,215	2,279
Grand Total	7,440	24,045	22,475	240,114	256,719	264,159

Note: Investments are in Public Debt Secutities unless otherwise noted.
See footnotes on page 3.

TABLE V—COMPARATIVE STATEMENT OF RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR (In millions)

Classification	Oct.	Nov.	Dec	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
NET RECEIPTS														
Individual income taxes	$23,227	$22,700	$25,577	$33,881	$22,190	$12,895	$39,192	$4,333	$32,200	$22,398	$25,820	$31,541	$295,955	$288,938
Corporation income taxes	468	467	10,922	1,619	9	7,965	9,095	280	11,315	2,063	801	11,891	56,893	37,022
Social insurance taxes and contributions:														
Employment taxes and contributions	14,266	14,254	15,435	19,924	17,296	17,138	23,169	17,600	18,976	18,858	17,278	17,990	212,184	185,766
Unemployment insurance	1,100	2,166	289	1,112	2,308	191	2,501	8,457	373	2,093	4,252	295	25,138	18,799
Other retirement contributions	339	357	394	425	369	373	366	384	410	410	401	354	4,580	4,429
Excise taxes	3,143	3,261	3,014	3,148	2,693	2,870	3,042	3,322	3,229	3,298	3,221	3,120	37,361	35,300
Estate and gift taxes	488	453	484	488	570	523	505	550	466	476	558	449	6,010	6,053
Customs duties	766	904	855	776	839	974	937	990	1,060	1,088	1,241	939	11,370	8,655
Miscellaneous receipts	1,359	1,640	1,074	1,165	1,613	1,535	1,374	1,543	1,253	1,333	1,637	1,440	16,965	15,601
Total—Budget receipts this year	45,157	46,202	58,044	62,537	47,886	44,464	80,180	37,459	69,282	52,017	55,209	68,019	666,457	....
Total—Budget receipts prior year	*40,539*	*42,007*	*54,498*	*57,505*	*38,816*	*43,504*	*66,234*	*33,751*	*66,517*	*43,948*	*49,683*	*63,556*	......	*600,562*
NET OUTLAYS														
Legislative Branch	121	156	188	96	121	124	140	134	110	144	142	110	1,584	1,438
The Judiciary	70	57	62	84	89	63	74	62	93	65	79	69	866	787
Executive Office of the President	5	13	10	11	6	8	8	7	7	12	8	−(**)	95	94
Funds Appropriated to the President:														
International security assistance	177	346	1,519	191	169	443	280	221	211	250	656	571	5,034	3,677
International development assistance	544	88	89	118	433	173	221	356	125	339	335	55	2,876	2,352
Other	7	−144	113	166	−37	−145	420	119	−263	394	−188	185	628	−601
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,301	1,012	1,064	1,665	1,035	578	394	159	153	398	442	249	8,450	19,850
Other	3,144	1,742	2,924	2,600	2,526	2,454	2,721	2,566	1,897	2,003	2,206	2,248	29,032	26,535
Department of Commerce	138	179	160	134	159	125	145	147	141	178	201	186	1,892	1,929
Department of Defense:														
Military:														
Department of the Army	4,161	4,339	4,658	4,507	4,543	4,682	4,643	4,366	4,716	4,800	4,746	4,483	54,643	50,647
Department of the Navy	5,694	5,365	6,002	5,384	5,803	5,863	5,996	6,233	5,947	5,778	6,354	5,887	70,306	66,812
Department of Air Force	4,989	5,847	5,613	5,555	5,493	5,566	5,472	5,757	5,995	5,649	6,154	5,757	67,847	62,214
Defense agencies	2,104	1,894	2,652	2,335	2,100	2,839	2,099	3,018	2,465	2,069	2,205	2,227	28,009	25,337
Total Military	16,949	17,445	18,925	17,781	17,939	18,950	18,211	19,373	19,123	18,296	19,459	18,354	220,805	205,011
Civil	285	288	297	240	208	212	239	215	222	263	296	303	3,072	2,945
Department of Education	1,285	1,375	1,371	1,495	1,438	1,266	1,354	1,291	1,156	987	1,413	1,063	15,494	14,567
Department of Energy	662	711	1,000	686	697	839	433	654	789	759	773	355	8,358	8,356
Department of Health and Human Services:														
Human Development Services	423	402	537	581	483	503	479	527	446	487	595	433	5,896	5,344
Health Care Financing Administration:														
Grants to States for Medicaid	1,646	1,578	1,531	1,670	1,751	1,813	1,747	1,691	1,687	1,680	1,826	1,440	20,061	18,985
Federal Hospital Ins. Trust Fund	3,987	3,474	3,298	3,371	3,318	3,904	3,548	3,807	3,784	3,568	3,916	2,321	42,295	38,524
Federal Supp. Med. Ins. Trust Fund	1,852	1,610	1,722	1,678	1,643	1,560	1,811	1,700	1,673	1,750	1,881	1,493	20,374	18,317
Other	1,357	1,284	1,555	1,495	1,364	2,249	1,385	1,386	1,721	1,469	2,682	93	18,042	18,871
Social Security Adm.:														
Assis. Pmts. Program	740	703	656	705	794	583	801	688	587	776	715	597	8,346	7,875
Federal Old-Age and Survivors Ins. Trust Fund	12,668	13,083	13,175	13,368	13,244	13,715	13,538	13,334	16,200	13,370	26,391	319	162,406	153,892
Federal Disability Ins. Trust Fund	1,534	1,491	1,455	1,554	1,527	1,612	1,532	1,521	1,610	1,548	2,916	161	18,459	18,279
Other	284	1,063	2,062	964	1,651	2,152	1,102	1,469	4,920	968	2,224	712	19,568	33,967
Other	−1,193	−1,130	−1,544	−1,574	−1,633	−2,455	−1,883	−1,562	−4,762	−2,022	−3,324	−140	−23,224	−37,601

TABLE V—COMPARATIVE STATEMENT OF RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR (In millions)—Continued

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
OUTLAYS—Continued														
Department of Housing and Urban Development	$1,597	$1,118	$1,445	$1,673	$1,100	$1,106	$1,248	$821	$1,611	$1,737	$1,198	$1,865	$16,517	$15,315
Department of the Interior	477	506	412	419	260	356	349	313	333	445	441	577	4,889	4,569
Department of Justice	241	241	232	277	287	246	277	248	254	286	350	232	3,171	2,849
Department of Labor:														
Unemployment trust fund	1,493	1,570	1,931	2,053	1,802	2,699	1,695	1,617	1,385	1,324	1,367	7,152	26,089	32,655
Other	−82	531	384	361	428	−331	381	430	532	544	709	−5,453	−1,567	5,539
Department of State	433	170	182	183	159	152	180	180	188	229	202	169	2,428	2,267
Department of Transportation:														
Highway trust fund	897	956	849	643	493	565	667	840	949	1,069	1,172	1,141	10,240	8,700
Other	2,158	1,135	905	1,254	958	940	983	913	1,059	1,185	1,040	1,136	13,664	11,915
Department of the Treasury:														
Interest on the public debt	10,038	11,011	18,990	10,717	11,165	11,210	11,423	12,062	20,407	11,758	12,714	12,343	153,838	128,813
General revenue sharing	1,139	6	......	1,031	106	1	1,140	(**)	(**)	1,140	2	......	4,567	4,614
Other	−1,566	−352	−1,552	−2,267	−646	−1,145	−1,038	−1,089	−2,839	−2,384	−790	−1,772	−17,440	−17,180
Environmental Protection Agency	289	326	360	345	305	384	303	345	332	394	335	338	4,057	4,299
General Services Administration	−239	156	118	−328	98	250	−176	186	226	−226	167	44	277	145
National Aeronautics and Space Administration	734	632	590	414	631	522	604	603	573	615	626	502	7,048	6,664
Office of Personnel Management	1,897	1,737	2,028	1,841	1,768	1,917	1,950	1,789	1,947	1,911	1,688	2,116	22,590	21,278
Small Business Administration	257	43	−39	−100	−27	−21	−6	−18	−15	23	4	154	255	479
Veterans Administration:														
Compensation and pensions	1,146	1,146	2,263	48	1,147	2,224	82	1,173	2,285	42	2,322	40	13,918	13,860
National service life	29	30	43	39	44	54	44	43	38	42	40	36	481	445
Government service life	4	4	5	4	4	5	4	5	5	4	4	4	52	59
Other	757	867	1,022	1,107	905	1,011	757	979	821	1,152	915	852	11,145	10,452
Independent Agencies:														
Postal Service	220	......	......	220	......	......	220	......	......	220	......	−2	877	789
Tennessee Valley Authority	23	136	61	26	−100	−30	97	23	72	84	−19	−22	351	820
Other ind. agencies	1,539	−15	1,376	345	59	1,714	246	2,983	−374	518	348	1,008	9,748	8,741
Undistributed offsetting receipts:														
Federal employer contributions to retirement fund	−569	−612	−713	−559	−640	−690	−681	−626	−714	−726	−675	−1,557	−8,760	−8,122
Interest credited to certain accounts	−231	−279	−8,179	−72	−197	−710	−309	−504	−9,126	−64	−419	−243	−20,333	−16,952
Rents and Royalties on Outer Continental Shelf Lands	−442	−98	−176	−703	−768	−134	−449	−1,789	−297	−570	−681	−605	−6,712	−10,492
Total-this year:														
Budget outlays	70,226	67,794	74,705	68,052	68,267	73,020	68,687	71,391	71,283	68,432	88,707	51,234	841,800	....
Budget surplus (+) or deficit (−)	−25,069	−21,591	−16,661	−5,515	−20,381	−28,555	+11,493	−33,932	−2,000	−16,416	−33,498	+16,785	−175,342	....
Off-budget surplus (+) or deficit (−)	+1,446	−678	+88	−246	−207	−1,727	−660	−1,352	−1,801	−1,712	−1,174	−1,974	−9,996	....
Total surplus (+) or deficit (−)	−23,623	−22,270	−16,572	−5,762	−20,588	−30,282	+10,833	−35,284	−3,801	−18,128	−34,673	+14,811	−185,339	....
Totals-prior year:														
Budget outlays	*66,708*	*66,166*	*72,436*	*67,087*	*64,152*	*69,540*	*69,542*	*63,040*	*63,116*	*65,360*	*67,160*	*61,610*	....	*795,916*
Budget surplus (+) or deficit (−)	*−26,169*	*−24,158*	*−17,938*	*−9,582*	*−25,336*	*−26,036*	*−3,308*	*−29,285*	*+3,401*	*−21,412*	*−17,477*	*+1,946*	....	*−195,354*
Off-budget surplus (+) or deficit (−)	*−294*	*−687*	*−165*	*−334*	*−5*	*−1,261*	*−1,139*	*−1,191*	*−2,019*	*−1,293*	*−1,267*	*−2,702*	....	*−12,357*
Total surplus (+) or deficit (−)	*−26,462*	*−24,845*	*−18,103*	*−9,916*	*−25,341*	*−27,296*	*−4,447*	*−30,476*	*+1,382*	*−22,705*	*−18,744*	*−756*	....	*−207,711*

TABLE VI—TRUST FUND IMPACT ON BUDGET RESULTS AND INVESTMENT HOLDINGS (In millions)

Classification	Current Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investment held:									
Airport and airway	$236	$122	$114	$2,499	$819	$1,680	$4,794	$6,313	$6,434
Black lung disability trust fund	45	54	-8	518	519	....	....	....	....
Federal Deposit Insurance Corp	....	-381	381	....	-248	248	13,952	13,754	14,195
Federal disability insurance	1,241	48	1,193	15,907	16,532	-625	5,288	4,261	4,656
Federal employees life and health benefits	....	8	-8	....	-754	754	6,113	6,893	6,879
Federal employees retirement	356	-14,866	15,222	4,609	-10,076	14,685	111,171	110,508	114,073
Federal hospital insurance	3,366	2,095	1,271	40,262	36,825	3,437	13,514	15,865	16,982
Federal old-age and survivors insurance	13,088	-396	13,483	152,444	149,131	3,313	25,503	21,110	27,224
Federal supplementary medical insurance	....	1,363	-1,363	....	-2,151	2,151	6,958	10,270	9,117
General Revenue Sharing	....	....	....	4,567	4,567	....	....	....	....
Highway	1,153	1,111	42	11,743	9,264	2,478	9,481	11,677	10,840
Military assistance advances	....	-17	17	....	-300	300	....	....	....
Railroad retirement	296	426	-131	3,572	5,563	-1,991	328	3,112	3,097
Unemployment	295	6,648	-6,353	25,138	21,334	3,804	8,396	13,454	12,397
Veterans life insurance	....	39	-39	....	-356	356	9,904	10,303	10,265
All other trust	43	2	41	436	460	-24	1,375	1,240	1,316
Trust fund receipts and outlays on the basis of Table III and investments held from Table IV-D	20,119	-3,742	23,861	261,694	231,129	30,565	216,778	228,759	237,474
Interfund receipts offset against trust fund outlays	18,517	18,517	....	73,670	73,670	....			
Total trust fund receipts and outlays	38,636	14,775	23,861	335,364	304,799	30,565			
Federal fund receipts and outlays on the basis of Table III	47,900	54,976	-7,077	409,330	615,237	-205,908			
Interfund receipts offset against Federal fund outlays	6,108	6,108	....	7,021	7,021	....			
Total Federal fund receipts and outlays	54,008	61,084	-7,077	416,351	622,258	-205,908			
Total interfund receipts and outlays	-24,625	-24,625	....	-85,257	-85,257	....			
Net budget receipts and outlays	68,019	51,234	16,785	666,457	841,800	-175,342			

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds, such as, Federal payments and contributions, Federal employer contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipt side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds and Federal funds respectively. Included in total interfund receipts and outalsy are $4,567 million in Federal funds transferred to trust funds for general revenue sharing.

Classification	Receipts and Outlays		
	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year to Date
NET RECEIPTS			
Individual income taxes	$31,541	$295,955	$288,938
Corporation income taxes	11,891	56,893	37,022
Social insurance taxes and contributions:			
Employment taxes and contributions	17,990	212,184	185,766
Unemployment insurance	295	25,138	18,799
Other retirement contributions	354	4,580	4,429
Excise taxes	3,120	37,361	35,300
Estate and gift taxes	449	6,010	6,053
Customs	939	11,370	8,655
Miscellaneous receipts	1,440	16,965	15,601
Total	68,019	666,457	600,562
NET OUTLAYS			
National defense	18,942	227,405	210,464
International affairs	1,698	13,313	9,091
General science, space, and technology	646	8,271	7,783
Energy	−266	2,464	4,046
Natural resources and environment	1,293	12,677	12,741
Agriculture	145	12,215	22,168
Commerce and housing credit	103	5,198	4,723
Transportation	2,331	24,705	21,358
Community and regional development	850	7,803	7,290
Education, training, employment and social services	1,839	26,616	25,695
Health	2,337	30,435	28,610
Social security and medicare	4,084	235,764	223,311
Income security	7,615	96,714	106,837
Veterans benefits and services	936	25,640	24,855
Administration of justice	396	5,616	5,082
General government	468	4,836	4,252
General purpose fiscal assistance	236	6,577	6,472
Interest	9,742	111,007	89,753
Undistributed offsetting receipts	−2,160	−15,454	−18,614
Total	51,234	841,800	795,916

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STATEMENT OF SECRETARY OF THE TREASURY DONALD T. REGAN ON INCOME TAX INDEXING

Under the individual income tax indexing provision of the Economic Recovery Tax Act of 1981, the personal exemption and the zero bracket amount will be increased and all marginal tax rate brackets will be adjusted approximately 4.1 percent for calendar year 1985.

As a result, American taxpayers will save more than $9 billion in taxes in 1985. Nearly 80 percent of the tax savings will benefit taxpayers earning less than $50,000 a year.

Under this indexing provision, inflation will no longer push taxpayers into higher tax brackets and erode the value of the personal exemption and the zero bracket amount. For years, Government has used inflation as a silent partner to raise taxes. With indexing, taxpayers will be protected from these hidden tax increases.

In 1985, the personal exemption will be increased from the present level of $1000 to $1040. (For senior citizens 65 and older, the personal exemption increases from $2000 to $2080.) The zero bracket amount will be increased from $2300 to $2390 for single returns and from $3400 to $3540 for joint returns.

Since tax brackets are narrower at low and moderate-income levels, low and moderate-income taxpayers benefit the most from indexing. They are the ones who have been pushed into higher tax brackets without indexing.

The tax saving in 1985 for a median-income family of four ($30,120 in 1984) will be $84. In addition, if inflation stays at about four percent over the next few years, this inflation protection will continue, saving this median-income family $690 a year in 1989 and a total of $1861 for the years 1985 through 1989.

Other typical tax changes resulting from indexing in 1985 and beyond are shown in the attached tables. Also attached are the 1985 indexed tax rate schedules for single and joint returns.

R-2901

Tax Changes Due to Indexing
Joint Return, One Earner, Two Dependents

Income	1984	1985	1986	1987	1988	1989	1985-89
Median income:							
Adjusted gross income	30,120	31,686	33,596	35,745	38,025	40,382	179,434
Tax after indexing	3,023	3,205	3,424	3,684	3,968	4,266	18,547
Tax before indexing	3,023	3,289	3,632	4,046	4,485	4,956	20,408
Change due to indexing	0	-84	-208	-362	-517	-690	-1,861
Percent change	0.0	2.6	5.7	8.9	11.5	13.9	9.1
$10,000 ($84):							
Adjusted gross income	10,000	10,471	10,946	11,404	11,853	12,279	56,953
Tax after indexing	291	246	315	332	340	347	1,580
Tax before indexing	291	283	397	459	518	578	2,235
Change due to indexing	0	-37	-82	-127	-178	-231	-655
Percent change	0.0	13.1	20.7	27.7	34.4	40.0	29.3
$20,000 ($84):							
Adjusted gross income	20,000	20,942	21,891	22,808	23,705	24,558	113,904
Tax after indexing	1,549	1,628	1,699	1,767	1,832	1,892	8,818
Tax before indexing	1,549	1,665	1,787	1,914	2,039	2,157	9,562
Change due to indexing	0	-37	-88	-147	-207	-265	-744
Percent change	0.0	2.2	4.9	7.7	10.2	12.3	7.8
$30,000 ($84):							
Adjusted gross income	30,000	31,413	32,837	34,212	35,558	36,837	170,857
Tax after indexing	3,003	3,158	3,295	3,424	3,550	3,665	17,092
Tax before indexing	3,003	3,242	3,486	3,751	4,010	4,256	18,745
Change due to indexing	0	-84	-191	-327	-460	-591	-1,653
Percent change	0.0	2.6	5.5	8.7	11.5	13.9	8.8
$40,000 ($84):							
Adjusted gross income	40,000	41,885	43,782	45,615	47,410	49,115	227,807
Tax after indexing	4,874	5,129	5,349	5,556	5,759	5,945	27,738
Tax before indexing	4,874	5,280	5,689	6,085	6,507	6,940	30,501
Change due to indexing	0	-151	-340	-529	-748	-995	-2,763
Percent change	0.0	2.9	6.0	8.7	11.5	14.3	9.1
$50,000 ($84):							
Adjusted gross income	50,000	52,356	54,728	57,019	59,263	61,394	284,760
Tax after indexing	7,165	7,540	7,862	8,168	8,466	8,740	40,776
Tax before indexing	7,165	7,764	8,366	8,949	9,519	10,104	44,702
Change due to indexing	0	-224	-504	-781	-1,053	-1,364	-3,926
Percent change	0.0	2.9	6.0	8.7	11.1	13.5	8.8

Office of the Secretary of the Treasury
Office of Tax Policy

October 25, 1984

Note: Forecasts of nominal incomes are consistent with the Administration's economic assumptions for the Midsession Review of the Budget. Incomes are assumed to consist only of wages and salaries. Deductible expenses are assumed to be 23 percent of adjusted gross income.

Tax Changes Due to Indexing
Joint Return, Two Earners, Two Dependents

Income	1984	1985	1986	1987	1988	1989	1985-89
Median income:							
Adjusted gross income	30,120	31,686	33,596	35,745	38,025	40,382	179,434
Tax after indexing	2,825	2,995	3,202	3,448	3,717	3,999	17,361
Tax before indexing	2,825	3,079	3,390	3,778	4,200	4,636	19,083
Change due to indexing	0	-84	-188	-330	-483	-637	-1,722
Percent change	0.0	2.7	5.5	8.7	11.5	13.7	9.0
$10,000 ($84):							
Adjusted gross income	10,000	10,471	10,946	11,404	11,853	12,279	56,953
Tax after indexing	255	208	276	291	297	303	1,375
Tax before indexing	255	245	358	418	471	526	2,018
Change due to indexing	0	-37	-82	-127	-174	-223	-643
Percent change	0.0	15.1	22.9	30.4	36.9	42.4	31.9
$20,000 ($84):							
Adjusted gross income	20,000	20,942	21,891	22,808	23,705	24,558	113,904
Tax after indexing	1,453	1,528	1,594	1,657	1,718	1,774	8,271
Tax before indexing	1,453	1,565	1,677	1,791	1,911	2,024	8,968
Change due to indexing	0	-37	-83	-134	-193	-250	-697
Percent change	0.0	2.4	4.9	7.5	10.1	12.4	7.8
$30,000 ($84):							
Adjusted gross income	30,000	31,413	32,837	34,212	35,558	36,837	170,857
Tax after indexing	2,805	2,951	3,078	3,198	3,315	3,422	15,964
Tax before indexing	2,805	3,035	3,267	3,494	3,743	3,980	17,519
Change due to indexing	0	-84	-189	-296	-428	-558	-1,555
Percent change	0.0	2.8	5.8	8.5	11.4	14.0	8.9
$40,000 ($84):							
Adjusted gross income	40,000	41,885	43,782	45,615	47,410	49,115	227,807
Tax after indexing	4,565	4,799	5,007	5,205	5,397	5,575	25,983
Tax before indexing	4,565	4,928	5,322	5,702	6,073	6,454	28,479
Change due to indexing	0	-129	-315	-497	-676	-879	-2,496
Percent change	0.0	2.6	5.9	8.7	11.1	13.6	8.8
$50,000 ($84):							
Adjusted gross income	50,000	52,356	54,728	57,019	59,263	61,394	284,760
Tax after indexing	6,670	7,021	7,321	7,603	7,879	8,133	37,957
Tax before indexing	6,670	7,245	7,824	8,384	8,932	9,452	41,837
Change due to indexing	0	-224	-503	-781	-1,053	-1,319	-3,880
Percent change	0.0	3.1	6.4	9.3	11.8	14.0	9.3

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Office of Tax Policy

Note: Forecasts of nominal incomes are consistent with the Administration's economic assumptions for the Midsession Review of the Budget. Incomes are assumed to consist only of wages and salaries. Deductible expenses are assumed to be 23 percent of adjusted gross income.

Tax Changes Due to Indexing
Single Return, No Dependents

Income	1984	1985	1986	1987	1988	1989	1985-89
Median incomes:							
Adjusted gross income	10,879	11,445	12,135	12,911	13,735	14,586	64,812
Tax after indexing	1,023	1,080	1,149	1,229	1,315	1,404	6,177
Tax before indexing	1,023	1,093	1,178	1,282	1,397	1,515	6,465
Change due to indexing	0	-13	-29	-53	-82	-111	-288
Percent change	0.0	1.2	2.5	4.1	5.9	7.3	4.5
$10,000 ($84):							
Adjusted gross income	10,000	10,471	10,946	11,404	11,853	12,279	56,953
Tax after indexing	915	960	1,003	1,043	1,081	1,116	5,203
Tax before indexing	915	973	1,031	1,088	1,143	1,196	5,431
Change due to indexing	0	-13	-28	-45	-62	-80	-228
Percent change	0.0	1.3	2.7	4.1	5.4	6.7	4.2
$20,000 ($84):							
Adjusted gross income	20,000	20,942	21,891	22,808	23,705	24,558	113,904
Tax after indexing	2,392	2,512	2,622	2,728	2,830	2,926	13,618
Tax before indexing	2,392	2,559	2,727	2,909	3,089	3,259	14,543
Change due to indexing	0	-47	-105	-181	-259	-333	-925
Percent change	0.0	1.8	3.9	6.2	8.4	10.2	6.4
$30,000 ($84):							
Adjusted gross income	30,000	31,413	32,837	34,212	35,558	36,837	170,857
Tax after indexing	4,385	4,607	4,808	5,000	5,185	5,359	24,959
Tax before indexing	4,385	4,711	5,040	5,358	5,669	5,999	26,777
Change due to indexing	0	-104	-232	-358	-484	-640	-1,818
Percent change	0.0	2.2	4.6	6.7	8.5	10.7	6.8
$40,000 ($84):							
Adjusted gross income	40,000	41,885	43,782	45,615	47,410	49,115	227,807
Tax after indexing	6,827	7,171	7,485	7,784	8,074	8,347	38,551
Tax before indexing	6,827	7,320	7,854	8,390	8,915	9,414	41,893
Change due to indexing	0	-149	-369	-606	-841	-1,067	-3,032
Percent change	0.0	2.0	4.7	7.2	9.4	11.3	7.2
$50,000 ($84):							
Adjusted gross income	50,000	52,356	54,728	57,019	59,263	61,394	284,760
Tax after indexing	9,673	10,160	10,604	11,028	11,441	11,829	55,062
Tax before indexing	9,673	10,367	11,134	11,875	12,601	13,290	59,267
Change due to indexing	0	-207	-530	-847	-1,160	-1,461	-4,205
Percent change	0.0	2.0	4.8	7.1	9.2	11.0	7.1

Office of the Secretary of the Treasury
Office of Tax Policy

October 25, 1984

Note: Forecasts of nominal incomes are consistent with the Administration's economic assumptions for the Midsession Review of the Budget. Incomes are assumed to consist only of wages and salaries. Deductible expenses are assumed to be 23 percent of adjusted gross income.

1985 Tax Rate Schedule

Married Taxpayers Filing Joint Returns

(and Qualifying Widows and Widowers)

If TAXABLE INCOME is		Then, TAX is			
over:	but not over:				of the amount over:
$ 0	$ 3,540	$0.00			
$ 3,540	$ 5,720	$0.00 +	11%	$	3,540
$ 5,720	$ 7,910	$239.80 +	12%	$	5,720
$ 7,910	$ 12,390	$502.60 +	14%	$	7,910
$ 12,390	$ 16,650	$1,129.80 +	16%	$	12,390
$ 16,650	$ 21,020	$1,811.40 +	18%	$	16,650
$ 21,020	$ 25,600	$2,598.00 +	22%	$	21,020
$ 25,600	$ 31,120	$3,605.60 +	25%	$	25,600
$ 31,120	$ 36,630	$4,985.60 +	28%	$	31,120
$ 36,630	$ 47,670	$6,528.40 +	33%	$	36,630
$ 47,670	$ 62,450	$10,171.60 +	38%	$	47,670
$ 62,450	$ 89,090	$15,788.00 +	42%	$	62,450
$ 89,090	$ 113,860	$26,976.80 +	45%	$	89,090
$ 113,860	$ 169,020	$38,123.30 +	49%	$	113,860
$ 169,020	....	$65,151.70 +	50%	$	169,020

Office of the Secretary of the Treasury
Office of Tax Analysis

October 24, 1984

1985 Tax Rate Schedule

Single Taxpayers

If TAXABLE INCOME is over:	but not over:	Then, TAX is		of the amount over:
$ 0	$ 2,390	$0.00		
$ 2,390	$ 3,540	$0.00 +	11%	$ 2,390
$ 3,540	$ 4,580	$126.50 +	12%	$ 3,540
$ 4,580	$ 6,760	$251.30 +	14%	$ 4,580
$ 6,760	$ 8,850	$556.50 +	15%	$ 6,760
$ 8,850	$ 11,240	$870.00 +	16%	$ 8,850
$ 11,240	$ 13,430	$1,252.40 +	18%	$ 11,240
$ 13,430	$ 15,610	$1,646.60 +	20%	$ 13,430
$ 15,610	$ 18,940	$2,082.60 +	23%	$ 15,610
$ 18,940	$ 24,460	$2,848.50 +	26%	$ 18,940
$ 24,460	$ 29,970	$4,283.70 +	30%	$ 24,460
$ 29,970	$ 35,490	$5,936.70 +	34%	$ 29,970
$ 35,490	$ 43,190	$7,813.50 +	38%	$ 35,490
$ 43,190	$ 57,550	$10,739.50 +	42%	$ 43,190
$ 57,550	$ 85,130	$16,770.70 +	48%	$ 57,550
$ 85,130	....	$30,009.10 +	50%	$ 85,130

Office of the Secretary of the Treasury
Office of Tax Analysis

October 24, 1984

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 25, 1984

CONTACT: Art Siddon
566-2041

TREASURY DEPARTMENT PRESS RELEASE

The Treasury Department today denied a UPI press report that the fiscal 1984 results were "purposely delayed because of orders from Departmental officials".

The Treasury Department had issued the 1984 fiscal report on Thursday, October 25. The report was released late in the day after completion on it, following preparation and release of a six-page report on the effects of tax indexing based on the CPI report issued by the Labor Department yesterday, October 24.

"It is our practice to release full information in as timely a manner as possible", said Alfred H. Kingon, Assistant Secretary of the Treasury for Policy Planning and Communications. "I know of no plans or directives from anyone, in any way, to delay the issuance of the budget report, or for that matter, any other report. It should be obvious that there was no reason to delay the budget figures. The final deficit figure was consistent with the Administration's earlier estimates and other Treasury officials' previous comments".

The year end report, a complicated document, required interagency comments, Kingon noted. Treasury's comments to OMB were not completed until about 7 p.m. last night, October 24. There was no way the report could have been finished and ready until today. He further reported that the printed document was not delivered until late this afternoon.

R-2902

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 25, 1984

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $8,256 million of 52-week bills to be issued November 1, 1984, and to mature October 31, 1985, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	9.40%	10.27%	90.496
High -	9.48%	10.36%	90.415
Average -	9.45%	10.33%	90.445

Tenders at the high discount rate were allotted 11%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 323,495	$ 33,495
New York	16,049,865	6,926,265
Philadelphia	21,940	18,160
Cleveland	56,470	46,470
Richmond	27,920	26,140
Atlanta	78,790	68,790
Chicago	1,029,360	128,910
St. Louis	69,900	64,230
Minneapolis	8,865	8,865
Kansas City	23,545	23,545
Dallas	2,460	2,460
San Francisco	1,169,250	808,100
Treasury	100,620	100,620
TOTALS	$18,962,480	$8,256,050
Type		
Competitive	$17,443,670	$6,737,240
Noncompetitive	408,810	408,810
Subtotal, Public	$17,852,480	$7,146,050
Federal Reserve	1,000,000	1,000,000
Foreign Official Institutions	110,000	110,000
TOTALS	$18,962,480	$8,256,050

R-2903

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 12 p.m. M.S.T.

Remarks by Beryl W. Sprinkel
Under Secretary of the Treasury for Monetary Affairs
before
MBA Graduate Students, Anderson School of Management
Albuquerque, New Mexico

October 26, 1984

Here we are, a couple of weeks shy of the election. One Washington observer I know defined an election as an opportunity to find out if the polls are right.

Meanwhile, we the voters are bombarded with political rhetoric. Tax cuts, tax increases, deficits, monetary policy, the recovery, the strong dollar, the trade deficit -- the list is a long one. One view is that political campaigns are emotional orgies that endeavor to distract attention from the real issues involved -- that they actually paralyze the voters' critical judgment.

In all my years in the economics profession and more recently in government, I have never subscribed to that cynical view. It is true, however, that the political arena is not ideally suited to reasoned analysis. Political discussions range from the realistic to the absurd; facts are distorted and theories misrepresented, frequently for political gain rather than to clarify public understanding of an issue.

But in the discussion of public policy there are some old myths that keep popping up like the proverbial bad penny. Some of these myths are like locusts -- they are reborn every 17 years. Some need but never get a proper burial. If the subject wasn't so serious, it would be amusing.

Today I would like to try to separate myth from reality with respect to some important economic policy issues in general, and with respect to specific Reagan Administration's policies.

MYTH #1: The Reagan tax cuts hurt the poor.

The 1981 Economic Recovery Tax Act had a very simple purpose -- allow people to keep more of their hard-earned income, provide increased incentives for individuals to work harder and save more, and encourage businesses to expand and engage in capital investment.

Critics of the tax cuts argue that they have benefitted the rich and not the poor. But since everyone received an across-the-board cut in the tax rate, it is inevitable that those who were paying the most in taxes before the cuts saw the largest dollar decline in their tax bill; that is simple arithmetic.

But the real point of the tax cut was more fundamental. Reducing marginal tax rates in the upper brackets was designed to draw upper-income individuals out of tax shelters and into more, taxable investments. Recent analysis of 1982 data demonstrates that the tax base is responsive to changes in tax rates, especially in the higher tax brackets.

Individuals in upper incomes shouldered a larger share of taxes in 1982. For example, the top 1.4% of taxpayers paid 21.8% of the tax burden, up from 20.4% in 1981. In contrast, the tax burden of individuals in the lower half of income levels fell from 7.6% in 1981 to 7% in 1982.

Obviously, talk is cheap. Since critics of the tax cuts will never be able to come up with concrete evidence to support their claims, talk is all that we'll hear from them. In the meantime, as more data is forthcoming, their allegations will only become more foolish.

MYTH #2: The Reagan tax cuts caused the budget deficit.

Everyone agrees that the budget deficit is a serious problem that must be resolved. However, allegations that the tax cuts are the root cause of the deficit are simply wrong. Moreover, such allegations reflect a total misunderstanding of where deficits come from.

Since 1970, tax receipts as a percentage of GNP have remained in the narrow range of 18.1% to 20.8%. In the aggregate, the 1981 and 1982 tax cuts have had the effect of leaving the average tax rate in 1984 essentially the same as in 1980. This is because higher Social Security and indirect taxes, and income tax bracket creep have offset much of the income tax cuts. In fact, over the 1981-1989 period, only about 9 cents on the dollar of the original Reagan tax cuts remain.

If tax cuts are not the cause, what is the cause of our deficit problems? Both the growth of government spending and slow economic growth during 1980-82 have played roles. The short-run revenue picture has been affected by two factors: the recession and the drop in inflation. The recession was temporary and the drop in inflation is most welcome. As real economic growth resumes, receipts will recover strongly.

But expenditure growth is a predominant factor. I can't help but be amused when I hear that spending has been "cut to the bone." Since 1970, Federal expenditures as a percentage of GNP have been rising at the annual rate of 1.7%. Since 1979, the annual rate has been an explosive 4.0%. In short, we have witnessed a growing rate of resource allocation from the private sector to the government sector.

If the tax cuts did not cause the deficit, then why do some argue for tax increases? It's actually very simple. It is in the interests of big spenders to blame the deficit on undertaxation, rather than on their own spending habits. It is also in their interest to raise taxes so as to fund more of their spending binges. Economic growth and a permanent slowdown in the rate of spending are the only lasting ways to balance the budget while promoting rising real income and employment.

MYTH #3: Tight money causes high interest rates.

Despite years of historical evidence that clearly shows that exactly the opposite is true, the myth that tight money causes high interest rates continues to lead a life of its own. Economists can argue theory 'til the cows come home. What happens in the real world is what's really important.

To understand the money-interest rate puzzle we must recognize that interest rates contain an expected inflation component. Whenever lenders expect inflation to rise over the term of their contract, they will charge borrowers a higher interest to protect the real purchasing power of their investment. That is just common sense. The key to understanding where inflation comes from is found in money growth. History has repeatedly demonstrated that inflation is not something that is imposed upon us by uncontrolled forces; it is inevitably the result of excessive money growth. It is no accident that while inflation rose secularly, money growth increased from an annual average of 3.5% in the 1961-65 period to an annual average of 7.4% in the five years ending in 1980. The positive correlation between money growth and inflation over this period is clear: the inflation rate rose from an annual average of less than 1.3% during the 1961-65 period to an annual average of nearly 9% in the five years ending 1980.

This Administration may not be perfect; but, unlike our critics, we are smart enough to study and learn from history. And history teaches us that rapid money growth goes hand-in-hand with inflation and high interest rates. Those who think that slow money growth causes high interest rates are simply blind to the hard-core evidence.

<u>MYTH #4:</u> Deficits cause inflation.

There is no necessary link between deficits and inflation. The budget deficit is a fiscal problem, not a monetary policy problem. As I have discussed above, the predominant factor causing our budget deficit is a lack of fiscal discipline. While everyone recognizes that large prospective budget deficits have serious, adverse implications for future capital formation, productivity, and the size of government, the budget deficit has no immediate relation to money growth or inflation.

The present and future goal of monetary policy is to provide stable and moderate money growth at a rate that is consistent with both price stability and sustainable real economic growth. That is as true with record-high deficits as it would be if the budget were balanced.

The only way that deficits would lead to inflation would be if the Federal Reserve "monetized" the debt. But such a policy would be short-sighted. Increased money growth generates inflation and inflationary expectations, and retards real economic growth as interest rates rise.

We have every reason to believe that the Federal Reserve will <u>not</u> pursue inflationary money growth to monetize the debt. The consensus of financial markets suggests the same conclusion. After rising during the early part of the year, forecasts of future inflation have been lowered by most analysts.

<u>MYTH #5:</u> Monetarist and supply-side economics are inconsistent.

Belief in free markets forms the basis of both monetarist and supply-side economics. Both schools of thought understand that the key to long-term economic growth lies in government policies that promote and facilitate private markets. This is not a new idea. From Adam Smith's <u>The Wealth of Nations</u> in 1776 to the work of the most recent Nobel-Laureate in economics, Gerard Debreu, the same conclusion is reached. Maximum efficiency is brought about by allowing the forces of supply and demand to operate in competitive markets.

As mentioned above, the Economic Recovery Tax Act provided incentives to engage in productive activity. When high marginal tax rates discourage private production and investment, the nation's output falls below its natural capacity. The success of the tax cuts demonstrates the premise of supply-side economics: tax rates affect the public's behavior. The tax cuts are just one example of where the government has facilitated the private market process.

Price stability is a goal that is promoted by monetarists and supply-siders alike. Provision of a sound currency system is another way the government can facilitate the private economy

by maintaining the long-term purchasing power of money and reducing uncertainty associated with long-term investment and consumption decisions. There can be no disagreement over the need for stable and noninflationary monetary policy when the ultimate goal is for policy to promote the maximum output potential of the private market.

Along with a policy of noninflationary money growth, monetarists and supply-siders agree that money growth should be stable and predictable. Erratic money growth induces policy-related fluctuations in economic performance. In contrast, stable and predictable money growth reduces policy-induced fluctuations in real economic activity and minimizes uncertainty about future economic performance. In addition, more predictable money growth reduces a large element of uncertainty that surrounds the long-run outlook for inflation.

By promoting as little interference with private markets as possible, supply-siders and monetarists believe that government should take a "back seat" to free markets. Free markets offer continued prosperity. The responsibility of policymakers is to make sure that government policy does not destroy that prosperity.

MYTH #6: A current account deficit causes a weak currency.

Like many myths, this one has some apparent basis in experience; a current account deficit is often associated with currency weakness in the exchange markets. However, such an association does not necessarily signify that one event causes the other. In the current U.S situation, indeed, a widening current account deficit has been associated with a very strong dollar. The missing factor, of course, is the capital account. Trade and current account balances move in response to various factors, notably differing growth rates of aggregate demand here and abroad, developments on the inflation front which affect price competitiveness, presence or absence of "bottlenecks" in domestic supply, and so on. Several of these factors -- notably growth and inflation differentials -- can influence financial markets as well. In general, investors will prefer high growth, low inflation environments to low growth, high inflation alternatives. Investors will also prefer a climate which offers stability in terms of politics and policy. Above all, they will prefer higher to lower rates of return on investment, given all these other factors.

Thus when a country is enjoying strong, well-balanced, noninflationary growth as is the U.S.; when policy stability has been established; when there is a positive, incentive-oriented investment climate, we should not be surprised to see a very strong capital account -- the counterpart being a strong dollar, and a current account deficit. On the other hand, when an economy is running at or above capacity; when real growth is possible only with high and rising inflation; where the soundness

of domestic policies is in question; we should expect to see a weak capital account and a weak currency -- also with a current account deficit. The key variable is the capital account, which, in turn, reflects to a major degree domestic economic policies and performance.

MYTH #7: The dollar must drop sharply.

The value of a currency is established by the interaction of supply and demand in the foreign exchange market. Shifts in supply and demand reflect many transactions -- purchases and sales of goods and services, international lending and borrowing, investing and paying off debt -- which are summarized in the balance of payments. The sheer volume of these can be imagined when we consider that foreign currency transactions in the markets are estimated to total on the order of $100 billion per day. Thus to say with certainty that the dollar "must" depreciate (or appreciate) is to make a statement about the net effect of an extremely large number of transactions, involving both trade and capital flows.

We know that one element often associated with currency depreciation is present in the U.S. case -- i.e., a large and growing current account deficit. However, that condition has been present for some time, and the dollar has continued to strengthen, not to depreciate. A second element often associated with currency weakness, a decline in U.S. interest rates relative to interest rates abroad, was present for much of the recent period of dollar strength. More recently, interest rates have moved down as the dollar rose. Overall, in absolute terms, U.S. interest rates have fallen sharply from their 1981 peaks, and have also declined relative to interest rates abroad. Sharply higher taxes and rapid money growth could cause a collapse in the dollar. However, since we have no intention to reverse our tax and monetary policies, these factors make a sharp collapse in the dollar unlikely.

We expect the trade and current account to continue in large deficit this year. We also expect further declines in U.S.interest rates. Other things equal, these would tend to cause the dollar to weaken unless offset by other factors. Among the possible offsetting factors are the following:

- -- U.S. growth and inflation performance, compared with other industrial countries;
- -- A perception of policy stability in the U.S.,
- -- An investment climate which offers increased rewards to risk-taking and initiative.

We expect these to remain basically favorable to investment in the dollar. However, improvements in conditions abroad -- e.g., continued strengthening in the recoveries abroad -- would make investment in other countries more attractive than before. In this case, other currencies would enjoy increased demand and appreciate; the mirror image would be a depreciation of the dollar in the exchange markets. In such circumstances, an orderly decline in the value of the dollar would be entirely appropriate. We don't expect it to drop sharply, but rather to drift slowly downward.

MYTH #8: Protectionism creates jobs.

Like many myths, a quick glance seems to confirm the validity of this proposition. It is only when the less visible effects are taken into account that just the opposite turns out to be true: protectionism destroys jobs.

When a domestic industry gains protection from foreign competition -- by a high tariff or a quota excluding foreign products -- it appears that workers' jobs and stockholders' profits in the protected industry are saved. More often than not, however, even with protection the industry continues to decline; foreign competition provides a convenient excuse for its troubles, while the real causes of decline fail to be addressed: a dying market demand for the product, outmoded technology, poor management, excessive labor costs.

But the unfavorable effects of protection are more widespread. As the Administration pointed out in rejecting copper and steel requests for protection from foreign competition, other domestic industries also lose because protectionism raises costs of their inputs, making it harder for them to compete. So even if some jobs are saved in the protected industry, jobs are lost elsewhere in the economy.

More and more often today there are still further consequences. Trading partners retaliate against the initial protectionists' action by raising barriers to other products the country makes. Farm leaders in this country are showing an increased awareness that protection for U.S. industries means likely retaliation against U.S. farm exports.

When protectionists' actions multiply, trade and production are disrupted. Employment falls rather than rises. In the Great Depression unemployment was made worse all over the world by round after round of protectionists' actions, all seeking to "save" jobs at home at the expense of foreigners.

Concluding Remarks

The issues that I have raised with you today are brainteasers that require careful analysis. The public is not well served by politicians who seek political gains at the expense of public understanding. These are issues that deserve their "day in court," both during the heat of a campaign and in thoughtful discussion in the months and years ahead.

Oliver Wendell Holmes, Jr., said that the ultimate good is reached by free trade in ideas. The best test of the truth, he said, is the power of thought to get itself accepted in the competition of the market.

The Reagan Administration's economic recovery has proven itself in the marketplace. Our recovery is the envy of our friends abroad where our improvement is coming more slowly. But our job is far from over.

Many of the misguided and "quick-fix" policies of the past remain with us. Many of the old myths are just "dying to be reborn" and we can expect our critics to create a few new myths to obscure the growing successes of our economic program.

But as the expansion continues to separate the myths from the realities, more and more of the misguided policies of the past will find their well-deserved and final burial grounds.

The reality is that our policies have fostered our economic recovery and will continue to support noninflationary, sustained economic growth.

Thank you.

oOo

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 12 p.m. M.S.T.

Remarks by
The Honorable Beryl W. Sprinkel
Under Secretary of the Treasury for Monetary Affairs
before the
Dean's Council of 100
Phoenix, Arizona
Monday, October 29, 1984

Thank you. It's a pleasure to be here to talk with you. This forum reminds me of some advice a college football player once gave me. His advice was to pick a subject you know about and stick with it.

Years ago we took a course together. The course was "New Testament Survey," reputed to be the easier course in the curriculum, and was taught by a retired minister with a reputation for always giving the same final examination question -- describe and trace the travels of the Apostle Paul.

Naturally everyone had memorized the answer, so you can imagine the shock and dismay when we were handed the exam question -- discuss and criticize the Sermon on the Mount.

My friend Tiny, the football player, not known for his academic excellence, immediately began writing while everyone else in the room got up and walked out.

When the grades were posted Tiny had passed with flying colors. We asked him what he had written. He had begun his answer by writing: "Who am I to criticize the words of the master, but I would like to write about the travels of Saint Paul."

So today I'd like to talk with you about a subject I know a great deal about -- budget deficits. It is a subject that frequently causes non-economists' eyes to glaze over. But it is a subject of immense importance -- a serious problem that must be resolved.

It's a subject that, once whispered among economists, prompts a barrage of proposals aimed at solving the problem. But in spite of all the attention the subject has garnered in academic and journalistic arenas, reasoned public discussion suffers on at least two fronts.

The first, and most frequently misunderstood, concerns the causes of deficits. The second, and more important from a public policy vantage point, is how to provide permanent solutions to an unacceptably high budget deficit.

Causes of Federal Deficits

Since 1970, the Federal government has operated under persistent deficits. These deficits are symptoms, not illnesses in and of themselves. They signal something is fundamentally wrong with the fiscal posture of a government.

There are those who blame our inability to balance the Federal books on the Reagan tax cuts. In theory, this is a possibility. But, anyone with only a passing familiarity with arithmetic knows that Federal spending growth is the other plausible explanation. Let's look at the hard facts on tax revenues and Federal expenditures.

Since 1970, tax receipts as a percentage of GNP have remained in the relatively narrow range of 18.1 percent to 20.8 percent. Despite many assertions about the erosion of the tax base, the 1981 and 1982 tax cuts have left the average tax rate in 1984 at essentially the same point it was in 1980.

The explanation for that phenomenon lies in higher Social Security and other indirect taxes, and income tax bracket creep that have offset much of the benefit from the income tax cuts. In fact, over the eight year period 1981 to 1989, only 9 cents on the dollar of the original tax cuts remain.

With these facts in mind, it is still difficult to conclude either that the tax cuts are the cause of current or future deficits or that the average American taxpayer is "undertaxed." The assertion that the tax cuts caused the deficits is a clever ploy. The politicians that assert that explanation have good reason to distract attention from the real issue -- government spending.

You have undoubtedly heard claims that government spending has been "cut to the bone." Our critics purport to show that we have not succeeded in reversing the trend of rising government spending as a share of GNP. They are partially correct; we have succeeded in slowing the rate of rise, but that is all we have been able to acomplish thus far.

The Federal government's share of GNP was one dollar out of five in 1970. By 1983 that share had risen to one dollar out of four. Since 1970, Federal spending as a percentage of GNP has been rising at the annual rate of 1.7 percent. Since 1979, the annual rate has been an explosive 4.0 percent. I can't help but be amused when I hear that spending is really not a factor in deficit growth. I have to admit, also, to some concern about the lack of public understanding of these relationships. We have to educate the public, so that they don't buy a politically motivated bill of goods on this subject.

The short-run deficit picture has also been affected by two other factors -- the recession and the most-welcome drop in inflation. As a rough rule of thumb, each time growth falls off by enough to produce a 1 percent increase in the unemployment rate, the budget deficit widens by $25 billion. We can also estimate that a one-percentage-point drop in the inflation rate reduces tax revenues by $122 billion over a five-year period. The recession was temporary, but the decline in inflation will be sustained by the sound fiscal and monetary policies of the Reagan Administration.

Controlling the Causes of Deficits

A moment ago I mentioned the need to educate the public on the causes of deficits. Only after we recognize the causes of our deficit can we expect to provide long-term solutions. The key is to understand the illness, not treat the symptoms. The cause of our deficit problem is plain to see: federal spending growth.

Are tax increases really our only hope for solving the deficit problem? Of course not. There are at least three things wrong with that approach.

First, past tax increases have resulted in more -- not less -- government spending. Thus, increasing taxes does not reduce the deficit dollar-for-dollar. Instead, additional taxes allow additional government spending. Put simply, it is in the interest of big spenders to raise taxes. How else can they fund their spending binges? At Treasury we are exploring a variety of options for tax reform. The big spenders' idea of tax reform is an additional chunk of the public's hard-earned money diverted to Washington.

Second, a tax increase is an anti-growth policy. High taxes distort incentives for saving and investment. They uniformly jeopardize long-run economic growth. We have achieved a vigorous recovery in large part as a result of the stimulative and incentive-oriented tax cuts. Today, a week before the presidential election we are urged to return to the high-tax environment of the past. That is a major threat to our recovery. High tax rates stifle investment and distort incentives. They do not guarantee higher tax revenues.

Third, those who counsel tax increases implicitly endorse the idea that the government sector should continue to grow. They accept, wholesale, the growth of government spending as a proportion of GNP and they advocate that we collect -- at whatever cost to the economy -- the additional tax revenues needed to permit that growth of the government sector.

Whether we as a society wish to see the government sector continue to grow is primarily a political, not economic, question. Nonetheless, that decision has profound economic implications. One set of premises leads logically to the next: if the Federal government grows relative to the rest of the economy, we as a society must face the consequences of higher taxes, higher government borrowing in the credit markets, added inflation, or some combination of these options. If government spending absorbs a larger and larger share of our economic resources, we have no other way to finance government spending.

You have heard, perhaps, that we should repeal indexing, set to begin in January. Repeal of indexing is portrayed as a way to raise revenue. But look more closely. Repealing indexing can only raise tax revenue through inflation.

The victims of inflation and bracket creep are the very people our critics claim they want to help -- lower income taxpayers. Their tax burden rises three times faster with inflation than their middle income counterparts. It rises eighteen times faster than for taxpayers who are already in the top tax bracket. The repeal of indexing is "sneaky" politics, proferred by the same people who tout fairness and public accountability.

It will come as no surprise to you that we do not favor higher taxes. We have looked at all the available data and we will continue to do so. Our analysis leads us to a simple message: tax increases have not succeeded in controlling deficit growth in the past. There is no reason to believe they can control it today or in the future. Even if tax increases could control deficits, rising tax rates are detrimental to long-term economic growth and prosperity.

Government spending is -- by definition -- a diversion of resources from the private sector to the government sector. Can we in good conscience burden the private sector with the weight of that policy. It matters not at all if the resources are diverted directly by taxation, indirectly by inflation, or by borrowing. The nature and the incidence of that burden may vary with alternative methods of financing, but the burden remains. And it is a very heavy burden indeed.

When I hear proposals for tax increases I am reminded of television commercials for antacid tablets that offer temporary relief of stomach acid distress. To coin a phrase: "Tax increases provide temporary relief for Federal budget deficits." Can't you picture in your mind's eye, little bubbles eating up deficit dollars? But the harsh reality is that the cause of our Federal budget imbalance cannot be cured by the bitter pill of tax increase medicine. We need a more thoughtful and permanent solution to insure long-term success.

Economic growth and a permanent slowdown in the rate of spending are the only lasting ways to balance the budget while promoting rising real income and employment. Continuation of economic growth provides steady tax revenue flows that finance responsible levels of spending. A permanent slowdown in the rate of spending insures that spending will be brought back to those responsible levels.

The Recovery

The U.S. economy has experienced a vigorous recovery from the 1981-82 recession. By most measures our economy today is stronger than any recovery since World War II. In point of fact, our recovery is the envy of our friends abroad where improvement has been slower in coming.

Last year, conventional wisdom among economists was that only a slow, stunted recovery would be possible in the face of growing deficits. Those economists are embarrassed by their predictions, as well they should be. This year, another group of the gloom-and-doom crowd is making the same misguided forecast.

In the face of all that handwringing, listen to Jack Albertine, president and chief economist of the American Business Conference. "By the middle of 1985," he says, "a greater number of economists will come to the conclusion that the growth potential of the economy is significantly larger than previously understood."

He continues, "This is the finest recovery since World War II. The fact that it is a business-investment-led recovery is of great significance. It means that we are not just creating jobs now, but for the future. We are putting into place ... increases in capacity that allow us to have a noninflationary recovery lasting five, six, even seven years."

He's right, of course. During the first six quarters of this expansion business capital spending has increased at a rate double that of previous post-Korean War expansions. Contrary to those predictions we were talking about a minute ago, the interest-sensitive sectors of the economy -- business capital,

outlays, purchases of consumer durables -- have led the way in this expansion and have continued to do so in the first half of this year. Employment has increased by more than 6 million people since the end of 1982.

Our recovery has also been characterized by a very low rate of inflation. The decline in inflation over the past four years is the largest in more than three decades. Productivity gains are equally impressive. Rising at a 4.7 percent pace in the second quarter, productivity has shown its eighth quarterly increase in a row. This is the longest period of improvement since nine in a row back in 1971-73.

Mr. Albertine's analysis confirms mine. "That means," he says, "that the ability of the economy to sustain rates of growth almost unheard of in American history is very probable."

Those who forecast an aborted recovery with high inflation misunderstood the reasons behind our dramatic turnaround in economic growth. Our success is a product of President Reagan's four-part economic recovery program.

- One, to cut the rate of growth of federal spending by redirecting government resource allocation to only those programs which lie within the province of proper government functions.
- Two, to reduce tax rates so as to provide increased incentives to work, save, and invest.
- Three, to make the regulatory process more cost-effective.
- Four, to provide a moderate and stable monetary policy which creates price stability and facilitates stable economic growth.

Concluding Remarks

We believed -- and still do -- that many of the mistakes in economic policymaking stemmed from a short-run focus -- a desire to maximize short-run gains with too little regard for long-term consequences.

The size of the Federal budget deficit is a major policy problem, but we must be careful not to adopt "quick-fix" policies that will never provide the long-term solutions we need. Tax increases are just such an unwise policy. Tax increases do not provide for fiscal discipline. On the contrary, tax increases validate past overspending and pave the way for more spending.

Our aim is long-term, sustainable, noninflationary economic growth. To achieve that goal will require long-term adherence to the basic tenets of the Reagan program. At the same time that our policies continue to rein in spending and promote economic expansion, we are pursuing the strategy that can solve our budget deficit problem.

Harry Truman is reported to have asked in sheer frustration whether he might someday find a one-handed economic adviser -- one who wouldn't advise him by saying "on the one hand, and on the other hand." One of the distinguishing characteristics of President Reagan's program is that it is even-handed.

In a second term, we pledge to vigilantly control Federal spending. We are pledged to a simple, fair, and economically efficient income tax system. We will not fail to meet those commitments.

I urge you to join me in turning aside the threat of solving our budget deficit problem by turning our back on the very principles that have led to the expansion we all now enjoy.

Thank you.

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TREASURY NEWS

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

For Release Upon Delivery
Expected at 11:30 a.m.

Remarks by
Donald T. Regan
Secretary of the Treasury
before the
U.S. League of Savings Institutions
October 29, 1984

Thank you. I'm glad to be here.

Today as we survey the year ahead we are seeing many alarmists who are suggesting that 1985 will be a negative one, or at best a year of low growth. Let me suggest otherwise, and make the case that an industry closely allied to yours will be a leader in carrying our current expansion to a very healthy real growth rate of four percent or so.

As we all know, the construction and building industry is heavily dependent on interest rates. In 1978 new home mortgages averaged around 9-1/2 percent based on a blended rating for 26-year mortgages, for the year, and we had just over 2 million new starts.

But interest rates started up that year, eventually reaching their peak in 1982 of just over 15.31 percent. Meanwhile starts were declining, also hitting their low point in 1982. As interest rates came down in 1983 to average 12.73 on the same FHLBB rate for the same mortgages; other rates of course for 20 and 30 year mortgages followed a similar path.

As you might expect, as rates declined in 1983 new starts also picked up, jumping by 70 percent on an interest decline of some 2-1/2 percentage points!

The current year 1984 has followed the same track -- new starts increasing whenever rates fell, and slowing down considerably as rates rose.

What's ahead then, since the industry, and a great deal of your own prosperity, are so dependent on rates? Well, rates in the government bond market have been declining ever since May. The decline at first was primarily in the longest end of the market -- our 30 year treasury bonds.

R-2906

It was almost on a 14 percent basis at the end of May, and last week was down to a 11.75 yield basis. The short end of the market proved to be very stubborn in coming down. In spite of the fact that short-term borrowings at commercial banks were practically flat from mid-June to October 1, the prime rate did not budge.

Other rates such as 90-day CDs and more recently the Fed funds rate did come down in the meantime. Commercial paper which large corporations use whenever they think its rate is better than the banks' rate also started declining.

Short rates, as measured by 3-month Treasury Bills are now down from around 10.65 at the end of August to about 9.30 today; they briefly touched 9.05 earlier last week.

The prime has finally started to move, and, in the past two weeks, has moved down a full point to 12 percent.

Is there room for a further decline in interest rates? To answer that question we must first look at the economy, and then at the supply of money. There's no question but what the economy has slowed down. We forecast that and are not surprised by it.

The pace of the first two quarters was unsustainable -- it averaged a real growth of 8-1/2 percent. But the current quarter should be a reasonably good one. Automobile production will be on the upswing, consumers will have money to spend for the holiday season, if they choose to buy -- I think they will, and that retail sales will be excellent.

Inflation is remaining low, plant and equipment expenditures are staying up, and confidence of both consumers and business people remains high.

All of this means that the economy will remain buoyant, but not overheated. There is still some slack in it. Unemployment is at 7.3 percent, too high by any standard, and needs to be brought down. Factory capacity utilization is about where the average was in the 70's -- at 82 percent -- so there is more room for expansion there. Credit is available although demand remains fairly strong.

The money supply, as measured by M-1, since last June, has grown only 1.5 percent. In the last 13 weeks it has grown by less than 1 percent. By anyone's yardstick that's not loose money. It leaves a lot of room for the Fed to ease.

If they did, would inflation return? Again I think not. The economy is not overly strong. Remember I said some are talking of a coming recession. I don't believe it, but it does indicate that an easing of money wouldn't panic the money markets.

Inflation, as I said is down, wage increases, while rising recently, are modest. Prices as measured on the wholesale index, or PPI if you prefer, actually have been negative for the past 2 months. Crude prices, or raw materials, continue to be very depressed.

Putting all these factors together leads me to the conclusion that we don't need to fear inflation in the days ahead.

If the Fed does ease money over the next several months, as conditions seem to warrant, and many are forecasting, then I believe interest rates will continue to decline. After all, a 12 percent prime in a time of 4 percent inflation, and 4 percent real growth, is out of line with any historical perspective.

So I do not feel any qualms about super-inflation, high interest rates, nor a recession in 1985.

So I think we will have still lower rates of interest rates in 1985. That's good news for the construction and home building industry. I believe you'll have a good, if not great year, in 1985. Demand is out there, it's price -- the price of money -- that has been holding new starts down.

I believe buyers will return with a decline in mortgage rates, and that should help everyone -- and be one of the lead engines in continuing our economic growth.

That's not to say that there aren't a lot of problems on our agenda. We have them -- and just to name a few: a strong dollar that is affecting exports, a high trade, and current account deficit, a large Federal budget deficit -- third-world country debt problems, and domestic debt problems causing concern for our commercial banks and thrifts.

These problems require us to have a strong economy and I believe that we can have such an economy if we are strong in our pursuit of a sound fiscal program, and a stable, noninflationary growth-oriented monetary policy.

Our fiscal policy is based at reducing the Federal budget by reducing spending -- not raising taxes. You've heard that before, of course, but we mean it, and it will be one of our top priorities in 1985. And a top priority in 1986, '87 and '88.

Now, let me turn to your industry for a few thoughts.

Recent events in the financial services industry have underscored the importance of protecting depositors' savings from imprudent management and the effects of severe economic fluctuations.

Just last week, in speaking to the American Bankers Association convention in New York, FDIC Chairman Bill Isaac pointed out that there are "serious problems" facing the insurance funds system, requiring "urgent attention from Congress."

We believe that most banks are well managed and secure. Nonetheless we have seen 70 banks and 20 S & Ls fail this year. And the public deserves reassurance that the mechanics for dealing with troubled institutions are adequate.

We have a number of options in pursuing the twin goals of assuring financial stability and protecting small savers. Let me be quite clear on our approach, however. The means by which we pursue these goals are just as important as achieving them.

To illustrate my point, we could provide 100 percent deposit insurance. That would achieve both goals. But the result of that approach would be to stimulate entirely different and not necessarily better behavior by individual institutions, and an entirely different response of the Federal government to that behavior than we would see with a more narrowly targeted system of deposit insurance.

So we are now asking some very basic questions. Is the system able to tolerate individual institution failures? Should we and how can we effectively protect depository institutions from macroeconomic fluctuations? And can we do it and still foster a competitive environment. And fundamentally, do private institutions or market arrangements improve or impede financial stability?

We are developing some guidelines that will help us weigh the various reform proposals. They are not strict requirements, because the deposit insurance system does not rely fully on the market system, and we have to leave room for trade-offs.

Our basic principles in arriving at conclusions are along these lines.

First, we seek to reduce the intrusiveness of the deposit insurance system, targeting it narrowly to a range of liabilities sufficient to assure stability and safety for savers.

Second, deposit insurance should not encourage risky behavior by depository institutions. Insured institutions should not feel less constrained by market forces than their non-insured competitors. They should not make bad loans on the assumption that government will bail them out.

Next, large depositors should know something about the depository institutions they deal with, and should be prepared to take their business elsewhere if they do not think an institution is sound. Therefore, if the depository institutions are aware that their customers are evaluating them more carefully, the institutions will be more concerned about their financial conditions.

Another governing principle is that the operation of the deposit insurance system should be controlled by rules, not discretion. In that way, the private sector can plan in an environment of predictabilty and security. Extraordinary circumstances may demand discretionary actions, but only to stabilize the financial system.

In addition, deposit insurance should be structured in a manner that minimizes subsidies provided by the taxpayer. Reform proposals ought to be and will be held to the test of cost. They should also be judged on the basis of frequency and magnitude of payouts.

Minimizing taxpayer subsidies is not necessarily identical to minimizing the cost to the system. An actuarily sound system financed by depositors is vastly preferable to a system carried by taxpayer subsidies.

Additionally, the deposit insurance trust fund should not be statutorily restricted from increasing in volume and the deposit insurance premium mechanism should be flexible. Those principles will give the fund the capacity to expand to meet potential liabilities or greater systemic risk.

And finally, the system should be sufficiently flexible to permit experiments with state and private insurance systems.

The Cabinet Council on Economic Affairs, of which I am chairman, is preparing a study on the deposit insurance system that will be the basis for our recommendations.

It is too early to say what the recommendations will be or whether any legislation will be proposed, but we will at least have ready a comprehensive framework within which we could begin our task.

Now, before concluding, I can't help but mention that we are just a week and a day from the election. From where I sit it looks as if the American people are going to give the President four more years.

I've tried to be non-political today. Still, it should come as no surprise that I think four more years of this Administration would be good news for all of us.

If the President is returned to office, I know you can count on a continuation of what we've started. Cast in the context of my speech today, you could certainly look forward to emphasis on free market forces, rather than government direction. You could expect that we would continue to pursue sensible regulation and sensible deregulation.

We would hope for, and certainly, work for, keeping inflation down. Indeed, we would strive to remove it entirely from our economic system.

And we would pursue policies allowing interest rates to return to the range and stability we once knew and that were, and are, so important to the long-term growth that this economy is capable of.

Thank you.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 29, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,618 million of 13-week bills and for $6,600 million of 26-week bills, both to be issued on November 1, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 31, 1985			26-week bills maturing May 2, 1985		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	9.37% a/	9.73%	97.631	9.58%	10.21%	95.157
High	9.39%	9.75%	97.626	9.60%	10.23%	95.147
Average	9.38%	9.74%	97.629	9.59%	10.22%	95.152

a/ Excepting 1 tender of $55,000.

Tenders at the high discount rate for the 13-week bills were allotted 05%.
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	$ 401,520	$ 49,615	$ 389,275	$ 289,275
New York	16,490,615	3,442,235	17,195,245	5,290,585
Philadelphia	33,665	33,665	18,965	18,965
Cleveland	137,680	98,180	82,740	70,200
Richmond	55,320	49,820	58,640	54,530
Atlanta	62,285	57,335	48,125	41,015
Chicago	934,225	132,925	807,470	175,510
St. Louis	85,435	44,485	82,440	42,440
Minneapolis	22,715	12,715	22,665	21,565
Kansas City	52,790	47,790	47,665	44,610
Dallas	42,600	37,850	30,070	29,520
San Francisco	3,482,925	2,320,585	1,146,420	144,960
Treasury	291,130	291,130	377,125	377,125
TOTALS	$22,092,905	$6,618,330	$20,306,845	$6,600,300
Type				
Competitive	$19,796,820	$4,322,245	$17,568,145	$3,861,600
Noncompetitive	1,156,425	1,156,425	983,300	983,300
Subtotal, Public	$20,953,245	$5,478,670	$18,551,445	$4,844,900
Federal Reserve	812,960	812,960	800,000	800,000
Foreign Official Institutions	326,700	326,700	955,400	955,400
TOTALS	$22,092,905	$6,618,330	$20,306,845	$6,600,300

1/ Equivalent coupon-issue yield.

R-2907

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 30, 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 $13,600 million, to be issued November 8, 1984. This offering will provide about $925 million of new cash, as the maturing bills total $12,685 million (including the 168-day cash management bills issued May 24, 1984, in the amount of $2,005 million).

The $10,680 million of regular maturities includes $1,084 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,266 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 $6,800 million, representing an additional amount of bills dated August 9, 1984, and to mature February 7, 1985 (CUSIP No. 912794 GS 7), currently outstanding in the amount of $6,665 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,800 million, to be dated November 8, 1984, and to mature May 9, 1985 (CUSIP No. 912794 HC 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 8, 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-2908

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, November 5, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 8, 1984, in cash or other immediately-available funds or in Treasury bills maturing November 8, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, 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

October 31, 1984

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE

TREASURY NOVEMBER QUARTERLY FINANCING

The Treasury will raise about $8,325 million of new cash and refund $9,178 million of securities maturing November 15, 1984, by issuing $6,500 million of 3-year notes, $5,750 million of 10-year notes, and $5,250 million of 30-year bonds. The $9,178 million of maturing securities are those held by the public, including $1,685 million held, as of today, by Federal Reserve Banks as agents for foreign and international monetary authorities.

The three issues totaling $17,500 million are 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.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $2,815 million of the maturing securities that may be refunded by issuing additional amounts of the new securities at the average prices of accepted competitive tenders.

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

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Attachment

R-2909

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
NOVEMBER 1984 FINANCING TO BE ISSUED NOVEMBER 15, 1984

October 31, 1984

Amount Offered:			
To the public..................	$6,500 million	$5,750 million	$5,250 million
Description of Security:			
Term and type of security.......	3-year notes	10-year notes	30-year bonds
Series and CUSIP designation....	Series Q-1987 (CUSIP No. 912827 RL 8)	Series C-1994 (CUSIP No. 912827 RM 6)	Bonds of 2009-2014 (CUSIP No. 912810 DN 5)
Maturity date...................	November 15, 1987	November 15, 1994	November 15, 2014
Call date.......................	No provision	No provision	November 15, 2009
Interest rate...................	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield................	To be determined at auction	To be determined at auction	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..........	May 15 and November 15	May 15 and November 15	May 15 and November 15
Minimum denomination available..	$5,000	$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 (to maturity), 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	None
Payment through Treasury Tax nd Loan (TT&L) Note Accounts...	Acceptable for TT&L Note Option Depositaries	Acceptable for TT&L Note Option Depositaries	Acceptable for TT&L Note Option Depositaries
ayment by non-institutional nvestors.....................	Full payment to be submitted with tender	Full payment to be submitted with tender	Full payment to be submitted with tender
eposit guarantee by esignated institutions.........	Acceptable	Acceptable	Acceptable
ey Dates:			
eceipt of tenders.............	Monday, November 5, 1984, prior to 1:30 p.m., EST	Wednesday, November 7, 1984, prior to 1:00 p.m., EST	Thursday, November 8, 1984, prior to 1:00 p.m., EST
ettlement (final payment e from institutions)			
a) cash or Federal funds......	Thursday, November 15, 1984	Thursday, November 15, 1984	Thursday, November 15, 1984
b) readily collectible check..	Tuesday, November 13, 1984	Tuesday, November 13, 1984	Tuesday, November 13, 1984

TREASURY NEWS

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

October 31, 1984

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE

TREASURY CHANGES CLOSING TIME FOR WEEKLY BILL OFFERING

The Department of the Treasury announced that it is changing the closing time for receipt of tenders for the 13- and 26-week bills to be auctioned Monday, November 5, 1984. The closing time will be changed from 1:00 p.m., Eastern Standard time, as originally announced, to 12:30 p.m. Eastern Standard time, on Monday, November 5, 1984.

This change is necessary because of the scheduling of the auction of 3-year notes the same day.

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R-2910

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 2, 1984

Contact: Alfred H. Kingon
566-8585
Thym S. Smith
566-5252

STATEMENT BY SECRETARY OF THE TREASURY
DONALD T. REGAN

The Secretary of the Treasury, Donald T. Regan, denied news reports in the Washington Post and elsewhere that the Treasury tax study had "approved phasing out the income tax deduction for state and local taxes and taxing all unemployment compensation and workmen's compensation."

"It is absolutely untrue," Secretary Regan said, "that we have made any final decisions. It's a shame to have uninformed and inaccurate conjectures that arouse unjustified anxieties."

The Secretary reiterated what has already been said to the effect that he has now begun to review the information that has started to come back from a massive computer study analyzing the financial and economic impact of various possibilities.

The Secretary noted that there would undoubtedly be more false reports emanating in the next several weeks, but that all concerned should regard them for what they are, "idle speculation," until he completes the review of all the options, makes the final recommendations, and sends them to the President.

R-2911

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

November 5, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,808 million of 13-week bills and for $ 6,807 million of 26-week bills, both to be issued on November 8, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 7, 1985			26-week bills maturing May 9, 1985		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	8.81%	9.14%	97.773	9.05%	9.62%	95.425
High	8.83%	9.16%	97.768	9.08%	9.65%	95.410
Average	8.82%	9.14%	97.771	9.07%	9.64%	95.415

Tenders at the high discount rate for the 13-week bills were allotted 58%.
Tenders at the high discount rate for the 26-week bills were allotted 36%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 387,085	$ 37,085	$ 396,615	$ 46,615
New York	17,295,830	5,976,220	16,432,530	5,706,675
Philadelphia	42,320	42,320	21,865	21,865
Cleveland	136,520	61,025	80,765	37,325
Richmond	46,885	40,885	54,510	43,010
Atlanta	40,850	40,265	29,595	29,595
Chicago	819,535	101,930	1,727,455	280,855
St. Louis	64,165	24,165	64,085	24,070
Minneapolis	22,705	10,705	25,400	25,400
Kansas City	62,195	57,695	44,195	43,195
Dallas	73,555	38,555	51,690	26,690
San Francisco	1,384,850	69,850	1,254,250	117,250
Treasury	307,395	307,395	404,740	404,740
TOTALS	$20,683,890	$6,808,095	$20,587,695	$6,807,285
Type				
Competitive	$18,010,605	$4,134,810	$17,846,710	$4,066,300
Noncompetitive	1,096,440	1,096,440	967,305	967,305
Subtotal, Public	$19,107,045	$5,231,250	$18,814,015	$5,033,605
Federal Reserve	1,239,925	1,239,925	1,200,000	1,200,000
Foreign Official Institutions	336,920	336,920	573,680	573,680
TOTALS	$20,683,890	$6,808,095	$20,587,695	$6,807,285

An additional $59,480 thousand of 13-week bills and an additional $88,820 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 6, 1984

CONTACT: Charles Powers
(202) 566-2041

UNITED STATES AND BARBADOS
SIGN AGREEMENT TO EXCHANGE TAX INFORMATION

The Treasury Department announced today that the United States and Barbados have signed an agreement to exchange tax information that satisfies the criteria set forth in the Caribbean Basin Economic Recovery Act of 1983. The Agreement was signed in Washington, D.C. on November 3, 1984.

As a result of signing the Agreement, Barbados will be considered part of the "North American area" for purposes of determining the deductibility by U.S. taxpayers of expenses incurred in attending conventions, business meetings, and seminars. Convention expenses incurred by U.S. taxpayers for meetings in Barbados beginning on or after November 3, 1984, that are otherwise deductible as ordinary and necessary business expenses therefore will be allowed without regard to the additional limitations otherwise applicable to foreign convention deductions.

In addition, because of the signing of the Agreement, Barbados qualifies as a foreign country in which a Foreign Sales Corporation may incorporate and maintain an office as provided in the Foreign Sales Corporation provisions of the Tax Reform Act of 1984.

A limited number of copies of the Agreement are available from the Treasury Public Affairs Office, Treasury Department, Room 2315, Washington, D.C. 20220,

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R-2913

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 6, 1984

CONTACT: Charles Powers
(202) 566-2041

TREASURY DEPARTMENT ISSUES NOTICE REGARDING CERTIFICATION OF EXCHANGE OF INFORMATION PROGRAMS OF TAX TREATY PARTNERS FOR PURPOSES OF THE FOREIGN SALES CORPORATION LEGISLATION

The Treasury Department has issued a notice regarding certification of the exchange of information programs of tax treaty partners for purposes of the Foreign Sales Corporation ("FSC") provisions of the Internal Revenue Code, as amended by the Tax Reform Act of 1984. The notice includes a list of treaty partners certified by the Secretary of the Treasury for FSC purposes.

Sections 801 through 805 of the Tax Reform Act amended the Code generally to replace the Domestic International Sales Corporation ("DISC") provisions (sections 991-997 of the Code) with the FSC provisions (sections 921-927 of the Code). A FSC must be organized under the laws of and maintain an office in a country that (1) is a possession of the United States (other than Puerto Rico), (2) has entered into an exchange of information agreement authorized under the Caribbean Basin Economic Recovery Act (codified at section 274(h)(6)(C) of the Code), or (3) has a bilateral income tax treaty with the United States if the Secretary of the Treasury certifies that the exchange of information program under the treaty carries out the purposes of the exchange of information requirements of the FSC legislation.

The Treasury Department has reviewed the exchange of information program of each of its tax treaty partners. The countries listed in the notice are certified for purposes of the FSC legislation. A FSC may incorporate as a company that is covered by the exchange of information program under the tax treaty of any country listed below.

The FSC certification procedure has been undertaken to comply with the intent of the legislation that a FSC be allowed to incorporate only in a country with which the United States has a satisfactory overall exchange of information program. The absence of any tax treaty partner of the United States from the list is not intended to imply

that such treaty partner is not fulfilling its exchange of information obligations under the treaty. The Treasury Department is having continuing consultations with certain treaty partners. Treaty partners not listed below may subsequently be certified at any time upon publication of a notice to that effect in the Federal Register.

If, following a certification, the information exchange program with a treaty partner deteriorates significantly, the Secretary may terminate the certification. Such termination would be effective six months after the date of the publication of the notice of such termination in the Federal Register. Consultations with the tax officials of the treaty partner will precede any such termination.

The following treaty countries have been certified for FSC purposes:

- Australia
- Austria
- Belgium
- Canada
- Denmark
- Egypt
- Finland
- France
- Germany
- Iceland
- Ireland
- Jamaica
- Korea
- Malta
- Morocco
- Netherlands
- New Zealand
- Norway
- Pakistan
- Philippines
- South Africa
- Sweden
- Trinidad & Tobago

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 5, 1984

RESULTS OF AUCTION OF 3-YEAR NOTES

The Department of the Treasury has accepted $6,502 million of $18,106 million of tenders received from the public for the 3-year notes, Series Q-1987, auctioned today. The notes will be issued November 15, 1984, and mature November 15, 1987.

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%	100.000
High	11.03%	99.925
Average	11.01%	99.975

Tenders at the high yield were allotted 28%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 369,160	$ 39,240
New York	14,883,930	5,517,090
Philadelphia	20,235	20,235
Cleveland	242,830	148,830
Richmond	97,410	50,270
Atlanta	42,915	36,755
Chicago	1,141,630	329,750
St. Louis	105,075	98,575
Minneapolis	33,315	33,315
Kansas City	98,695	94,705
Dallas	13,025	11,585
San Francisco	1,054,430	117,910
Treasury	3,245	3,245
Totals	$18,105,895	$6,501,505

The $6,502 million of accepted tenders includes $746 million of noncompetitive tenders and $5,756 million of competitive tenders from the public.

In addition to the $6,502 million of tenders accepted in the auction process, $410 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,215 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-2915

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 6, 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 $13,600 million, to be issued November 15, 1984. This offering will provide about $1,875 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $11,717 million, including $727 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,304 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 $ 6,800 million, representing an additional amount of bills dated August 16, 1984, and to mature February 14, 1985 (CUSIP No. 912794 GT 5), currently outstanding in the amount of $6,667 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 6,800 million, representing an additional amount of bills dated May 17, 1984, and to mature May 16, 1985 (CUSIP No. 912794 GL 2), currently outstanding in the amount of $8,111 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 November 15, 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-2916

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Tuesday, November 13, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 15, 1984, in cash or other immediately-available funds or in Treasury bills maturing November 15, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

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

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 7, 1984

RESULTS OF AUCTION OF 10-YEAR NOTES

The Department of the Treasury has accepted $5,750 million of $12,050 million of tenders received from the public for the 10-year notes, Series C-1994, auctioned today. The notes will be issued November 15, 1984, and mature November 15, 1994.

The interest rate on the notes will be 11-5/8%. The range of accepted competitive bids, and the corresponding prices at the 11-5/8% interest rate are as follows:

	Yield	Price
Low	11.64%	99.913
High	11.73%	99.391
Average	11.70%	99.565

Tenders at the high yield were allotted 71%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

	Received	Accepted
Boston	$ 204,575	$ 10,545
New York	10,238,924	5,050,374
Philadelphia	2,148	2,148
Cleveland	39,665	38,505
Richmond	11,702	4,702
Atlanta	20,692	14,692
Chicago	776,380	243,520
St. Louis	67,106	66,606
Minneapolis	13,043	13,043
Kansas City	27,189	27,189
Dallas	2,397	2,397
San Francisco	645,389	275,749
Treasury	623	623
Totals	$12,049,833	$5,750,093

The $5,750 million of accepted tenders includes $345 million of noncompetitive tenders and $5,405 million of competitive tenders from the public.

In addition to the $5,750 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 $850 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-2917

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 8, 1984

CONTACT: Charles Powers
(202) 566-2041

UNITED STATES AND COSTA RICA INITIAL AGREEMENT TO EXCHANGE TAX INFORMATION

The Treasury Department announced today that the United States and the Republic of Costa Rica have agreed in principle to the text of an agreement to exchange tax information that would satisfy the criteria set forth in the Caribbean Basin Economic Recovery Act of 1983. Officials of the United States and Costa Rica executed a Memorandum reflecting agreement to an English language text in Washington, D.C. on November 2, 1984. It is expected that a Spanish language text will be agreed upon in the near future and that a final agreement will be executed at that time. Because a final agreement must be ratified by Costa Rica, the final agreement will enter into force upon an exchange of notes between the two governments indicating that the agreement has been ratified.

The English language text agreed to in principle is consistent with standards for an exchange of information agreement described in section 274(h)(6)(C) of the Internal Revenue Code (relating to eligibility for deductions for expenses of attending foreign conventions). Convention expenses incurred by U.S. taxpayers for meetings in Costa Rica beginning on or after the date of the final agreement's entry into force that are otherwise deductible as ordinary and necessary business expenses would be allowable without regard to the additional limitations otherwise applicable to foreign convention deductions.

In addition, upon the final agreement's entry into force, Costa Rica would qualify as a foreign country in which a Foreign Sales Corporation may incorporate and maintain an office as provided in the Foreign Sales Corporation provisions of the Tax Reform Act of 1984.

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R-2918

federal financing bank NEWS
WASHINGTON, D.C. 20220

Press 566-2041
FFB 566-2468

FOR IMMEDIATE RELEASE November 8, 1984

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of September 1984.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $144.8 billion on September 30, 1984, posting a net increase of $0.8 billion from the level on August 31, 1984. This change included increases in holdings of agency assets of $0.4 billion, holdings of agency-guaranteed debt of $0.1 billion, and holdings of agency debt issues of $0.3 billion. FFB made 291 disbursements during the month.

On September 6, 1984, the FFB entered into a $3 billion commitment to finance 18 vessels for the Department of the Navy Military Sealift Command.

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, 1984.

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R-2919

FEDERAL FINANCING BANK

SEPTEMBER 1984 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 #385	9/4	$ 260,000,000.00	9/17/84	11.185%	
Note #386	9/10	140,000,000.00	9/17/84	11.105%	
Note #387	9/10	5,000,000.00	9/20/84	11.105%	
Note #388	9/17	375,000,000.00	9/24/84	10.905%	
Note #389	9/17	5,000,000.00	9/26/84	10.905%	
Note #390	9/24	365,000,000.00	10/8/84	10.785%	
Note #391	9/24	70,000,000.00	10/1/84	10.785%	
Note #392	9/24	25,000,000.00	10/2/84	10.785%	
Note #393	9/28	50,000,000.00	10/8/84	10.695%	
Note #394	9/30	175,000,000.00	10/8/84	10.745%	
EXPORT-IMPORT BANK					
Note #59	9/1	410,000,000.00	9/1/94	12.915%	12.713% qtr.
Note #60	9/1	126,000,000.00	9/1/94	12.881%	12.680% qtr.
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #254	9/10	15,000,000.00	10/10/84	11.105%	
+Note #255	9/14	5,000,000.00	10/15/84	10.875%	
Note #256	9/14	9,850,000.00	12/13/84	10.875%	
Note #257	9/26	20,000,000.00	12/20/84	10.835%	
Note #258	9/27	25,000,000.00	12/31/84	10.785%	
Note #259	9/28	20,000,000.00	12/31/84	10.785%	
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership					
	9/7	375,000,000.00	9/1/89	12.945%	13.364% ann.
	9/7	325,000,000.00	9/1/94	12.935%	13.353% ann.
	9/7	75,000,000.00	9/1/99	12.865%	13.279% ann.
	9/7	20,000,000.00	9/1/04	12.785%	13.194% ann.
	9/9	30,000,000.00	9/1/94	12.825%	13.236% ann.
	9/9	60,000,000.00	9/1/99	12.785%	13.194% ann.
	9/12	20,000,000.00	9/1/04	12.595%	12.992% ann.
	9/24	400,000,000.00	9/1/89	12.565%	12.960% ann.
	9/30	65,000,000.00	9/1/94	12.605%	13.002% ann.
	9/30	70,000,000.00	9/1/99	12.545%	12.938% ann.
	9/30	10,000,000.00	9/1/04	12.495%	12.885% ann.
RURAL ELECTRIFICATION ADMINISTRATION					
Certificate of Beneficial Ownership					
	9/30	69,200,000.00	9/30/14	12.405%	
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE					
Foreign Military Sales					
Turkey 13	9/4	24,525,739.62	3/24/12	12.846%	
Bolivia 2	9/5	249,900.00	11/22/95	12.990%	
Morocco 11	9/5	423,543.66	9/8/95	13.005%	
Philippines 10	9/5	558,194.59	7/15/92	12.685%	
Greece 14	9/6	20,909.00	4/30/11	12.875%	
Greece 15	9/6	55,140.00	6/15/12	13.045%	
Egypt 6	9/7	5,679,223.62	4/15/14	12.915%	

+rollover

FEDERAL FINANCING BANK

SEPTEMBER 1984 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual	INTEREST RATE (other than semi-annual)
Foreign Military Sales (Cont'd)					
Israel 16	9/7	$ 3,055,226.33	7/10/14	12.805%	
Panama 6	9/7	994,139.49	11/25/93	12.975%	
Somalia 4	9/7	133,065.20	11/30/12	12.735%	
Turkey 14	9/7	4,734,764.60	11/30/12	12.680%	
Bolivia 2	9/10	24,850.40	11/22/95	12.905%	
Botswana 3	9/10	714,589.15	3/10/91	12.702%	
Egypt 6	9/10	2,702,100.00	4/15/14	12.804%	
Jordan 10	9/12	1,323.75	3/10/92	11.805%	
Bolivia 2	9/12	749,700.00	11/22/95	12.748%	
Indonesia 9	9/12	4,840,328.00	5/10/92	12.646%	
Israel 8	9/13	172,333.18	9/1/09	12.545%	
Philippines 10	9/13	278,748.00	7/15/92	12.395%	
Egypt 6	9/13	877,243.90	4/15/14	12.655%	
Egypt 6	9/17	19,000,000.00	4/15/14	12.524%	
El Salvador 7	9/17	868,391.23	6/10/96	12.615%	
Morocco 11	9/17	3,673.42	9/8/95	12.545%	
Philippines 10	9/17	1,107,680.52	7/15/92	12.265%	
Israel 16	9/18	12,242,477.10	7/10/14	12.405%	
Oman 6	9/18	354,298.98	5/25/91	12.545%	
Turkey 13	9/18	869,630.91	3/24/12	12.415%	
Egypt 6	9/19	3,429,921.20	4/15/14	12.415%	
Korea 18	9/21	46,128,812.64	12/31/95	12.456%	
El Salvador 7	9/24	209,264.73	6/10/96	12.635%	
Liberia 10	9/24	60,535.63	5/15/95	12.615%	
Thailand 10	9/24	4,145,022.00	7/10/94	12.615%	
Zaire 1	9/24	6,250.00	9/22/92	12.625%	
Israel 16	9/25	13,368,257.73	7/10/14	12.505%	
Kenya 11	9/25	944,674.16	5/15/95	12.651%	
Malaysia 7	9/25	1,091,700.00	3/10/88	11.165%	
Bolivia 2	9/26	299,700.00	11/22/95	12.735%	
Egypt 6	9/26	2,016,803.55	4/15/14	12.635%	
Israel 16	9/28	51,577,044.39	7/10/14	12.313%	
Turkey 13	9/28	10,637,241.02	3/24/12	12.355%	
DEPARTMENT OF ENERGY					
Geothermal Loan Guarantees					
NPN Partnership	9/26	1,392,000.00	4/1/85	11.370%	11.213% qtr.
Niland Geothermal, Inc.	9/26	588,000.00	4/1/85	11.370%	11.213% qtr.
Synthetic Fuels - Non-Nuclear Act					
Great Plains Gasification Assoc. #120	9/4	4,000,000.00	7/1/85	12.705%	
#121	9/10	3,500,000.00	7/1/85	12.695%	
#122	9/17	6,500,000.00	7/1/85	12.315%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development					
*Grand Rapids, MI	9/4	380,000.00	9/1/89	12.871%	13.285% ann.
*Lansing, MI	9/4	200,000.00	9/1/88	12.734%	13.139% ann.
Detroit, MI	9/4	22,429,866.08	9/1/88	12.724%	13.129% ann.
Long Beach, CA	9/11	65,000.00	8/1/85	11.695%	11.994% ann.
Somerville, MA	9/12	25,000.00	5/1/85	11.495%	11.637% ann.
Lincoln, NE	9/12	15,000.00	10/1/84	10.945%	
Buffalo, NY	9/13	500,000.00	8/1/03	12.650%	13.050% ann.
Simi Valley, CA	9/13	464,416.00	8/15/85	11.755%	12.071% ann.
Des Moines, IA	9/13	120,000.00	2/15/85	11.265%	
St. Louis, MO	9/14	2,300,000.00	2/15/86	12.035%	12.397% ann.
San Diego, CA	9/14	265,000.00	8/1/85	11.625%	11.917% ann.
Provo, UT	9/18	1,275,000.00	8/1/85	11.575%	11.860% ann.
Utica, NY	9/19	149,000.00	5/1/85	11.295%	11.416% ann.
Indianapolis, IN	9/24	250,000.00	2/1/85	11.025%	

*maturity extension

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BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Community Development (Cont'd)					
Kansas City, MO	9/24	$ 1,000,000.00	6/15/85	11.375%	11.575% ann.
Sacramento, CA	9/24	231,124.83	2/1/85	11.025%	
Simi Valley, CA	9/24	666,043.38	8/15/85	11.505%	11.796% ann.
Bridgeton, NJ	9/25	55,000.00	10/1/84	10.835%	
Peoria, IL	9/25	250,000.00	2/1/85	10.995%	
Hialeah, FL	9/27	282,086.92	12/1/85	11.675%	12.016% ann.
Hialeah, FL	9/27	27,913.08	12/1/84	10.765%	
Lincoln, NE	9/27	55,475.00	10/1/84	10.765%	
Peoria, IL	9/27	250,000.00	2/1/85	10.895%	
Pittsburgh, PA	9/28	400,000.00	10/15/03	12.398%	12.782% ann.
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Space Communications Company	9/11	16,844,467.00	10/1/92	12.728%	13.133% ann.
	9/20	8,520,000.00	10/1/92	12.359%	12.741% ann.
	9/28	13,180,000.00	10/1/92	12.396%	12.780% ann.
DEPARTMENT OF THE NAVY					
Defense Production Act					
Gila River Indian Com. #17	9/21	160,159.96	10/1/92	12.415%	12.228% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
*Brazos Electric #108	9/4	2,831,000.00	9/4/86	12.665%	12.471% qtr.
*Brazos Electric #144	9/4	2,888,000.00	9/4/86	12.665%	12.471% qtr.
Saluda River Electric #186	9/4	4,367,000.00	9/30/86	12.685%	12.490% qtr.
S. Mississippi Electric #171	9/4	1,400,000.00	9/4/86	12.665%	12.471% qtr.
Corn Belt Power #55	9/4	185,000.00	9/4/86	12.665%	12.471% qtr
Tex-La Electric #208	9/4	1,113,000.00	9/4/86	12.665%	12.471% qtr.
*Soyland Power #105	9/4	2,739,000.00	9/4/87	12.735%	12.538% qtr.
*Soyland Power #165	9/4	9,661,000.00	9/4/87	12.735%	12.538% qtr.
*Oglethorpe Power #74	9/4	54,935,000.00	9/4/87	12.735%	12.538% qtr.
*Oglethorpe Power #150	9/4	14,349,000.00	9/4/87	12.735%	12.538% qtr.
*Saluda River Electric #271	9/4	3,525,000.00	9/30/86	12.685%	12.490% qtr.
Associated Electric #132	9/4	3,547,000.00	9/4/86	12.665%	12.471% qtr.
*Arkansas Electric #142	9/4	3,324,000.00	1/31/85	11.475%	11.330% qtr.
Arizona Electric #242	9/5	1,200,000.00	12/31/18	12.754%	12.557% qtr.
Tex-La Electric #208	9/5	1,390,000.00	9/5/88	12.715%	12.519% qtr.
*Basin Electric #87	9/6	20,000,000.00	9/8/86	12.755%	12.558% qtr.
Corn Belt Power #138	9/7	521,000.00	9/8/86	12.665%	12.471% qtr.
*Northeast Mississippi	9/7	1,893,000.00	9/9/86	12.665%	12.471% qtr.
Deseret G&T #211	9/10	22,243,000.00	9/10/86	12.585%	12.393% qtr.
Vermont Electric #259	9/10	2,000,000.00	9/30/86	12.595%	12.403% qtr.
*Basin Electric #137	9/10	30,000,000.00	9/10/86	12.585%	12.393% qtr.
*Wabash Valley Power #104	9/10	5,055,000.00	9/10/86	12.585%	12.393% qtr.
*Wabash Valley Power #206	9/10	1,805,000.00	9/10/86	12.585%	12.393% qtr.
*Wolverine Power #101	9/10	2,841,000.00	9/10/86	12.585%	12.393% qtr.
*Wolverine Power #101	9/10	100,000.00	9/10/86	12.655%	12.461% qtr.
Wabash Valley Power #206	9/11	295,000.00	9/30/86	12.415%	12.228% qtr.
New Hampshire Electric #270	9/12	627,000.00	9/30/86	12.405%	12.218% qtr.
*Colorado Ute Electric #78	9/12	3,700,000.00	9/30/86	12.390%	12.204% qtr.
*Gulf Telephone #50	9/12	230,000.00	9/12/87	12.515%	12.325% qtr.
*East Kentucky Power #188	9/13	8,126,000.00	9/15/86	12.435%	12.247% qtr.
*Wolverine Power #101	9/13	77,000.00	9/15/86	12.435%	12.247% qtr.
*Golden Valley Electric #81	9/13	10,000,000.00	9/30/86	12.435%	12.247% qtr.
*Colorado Ute Electric #8	9/14	9,084,000.00	9/30/86	12.339%	12.154% qtr.
*East Kentucky Power #140	9/14	600,000.00	9/15/86	12.345%	12.160% qtr.
*Kansas Electric #216	9/17	5,450,000.00	9/17/86	12.285%	12.102% qtr.
*Brazos Electric #108	9/17	504,000.00	9/17/86	12.285%	12.102% qtr.
*Brazos Electric #230	9/17	6,000,000.00	9/17/86	12.285%	12.102% qtr.
*Associated Electric #132	9/17	31,000,000.00	9/17/86	12.285%	12.102% qtr.
*East Kentucky Power #73	9/17	500,000.00	9/30/86	12.289%	12.106% qtr.
*Oglethorpe Power #74	9/17	6,412,000.00	9/3/87	12.355%	12.170% qtr.
*Oglethorpe Power #150	9/17	7,041,000.00	9/3/87	12.355%	12.170% qtr.
Brazos Electric #108	9/17	128,000.00	9/17/86	12.285%	12.102% qtr.

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BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd.)					
Brazos Electric #230	9/17	$ 2,579,000.00	9/17/86	12.285%	12.102% qtr.
Northeast Texas Electric #280	9/17	262,000.00	9/30/86	12.293%	12.110% qtr.
*Dairyland Power #54	9/17	1,486,000.00	9/17/86	12.285%	12.102% qtr.
*Seminole Electric #141	9/19	2,536,000.00	9/19/86	12.225%	12.044% qtr.
*Soyland Power #226	9/20	13,332,000.00	9/22/86	12.075%	11.898% qtr.
*Associated Electric #132	9/20	10,000,000.00	9/22/86	12.075%	11.898% qtr.
*Basin Electric #87	9/20	20,000,000.00	9/22/86	12.075%	11.898% qtr.
Oglethorpe Power #246	9/20	54,745,000.00	9/21/87	12.255%	12.073% qtr.
Chugach Electric #257	9/20	783,000.00	3/31/88	12.335%	12.150% qtr.
*Seminole Electric #141	9/21	20,326,000.00	9/22/86	12.065%	11.888% qtr.
*Big Rivers Electric #143	9/21	229,000.00	9/30/86	12.065%	11.888% qtr.
*Big Rivers Electric #179	9/21	18,442,000.00	12/31/84	10.805%	10.776% qtr.
*Central Electric #131	9/24	250,000.00	9/24/86	12.195%	12.015% qtr.
Old Dominion Electric #267	9/24	1,434,000.00	9/30/86	12.197%	12.017% qtr.
*Big Rivers Electric #58	9/24	353,000.00	9/30/86	12.205%	12.024% qtr.
*Big Rivers Electric #65	9/24	26,000.00	9/30/86	12.205%	12.024% qtr.
*Big Rivers Electric #91	9/24	2,804,000.00	9/30/86	12.205%	12.024% qtr.
*Big Rivers Electric #136	9/24	329,000.00	9/30/86	12.205%	12.024% qtr.
*Big Rivers Electric #143	9/24	10,000.00	9/30/86	12.205%	12.024% qtr.
*Associated Electric #132	9/24	17,253,000.00	9/24/86	12.195%	12.015% qtr.
*South Mississippi Electric #3	9/24	138,000.00	9/30/86	12.189%	12.009% qtr.
*Corn Belt Power #166	9/25	2,900,000.00	9/25/86	12.225%	12.044% qtr.
Colorado Ute Electric #96	9/26	3,066,000.00	9/30/86	12.245%	12.063% qtr.
Corn Belt Power #94	9/26	626,000.00	9/26/86	12.245%	12.063% qtr.
Brazos Electric #230	9/27	7,206,000.00	9/29/86	12.185%	12.005% qtr.
North Carolina Electric #268	9/27	33,677,000.00	9/30/86	12.185%	12.005% qtr.
*Central Electric #131	9/27	75,000.00	9/29/86	12.185%	12.005% qtr.
*Golden Valley Electric #81	9/27	8,000,000.00	9/30/86	12.185%	12.005% qtr.
*Sugar Land Telephone #69	9/28	1,411,000.00	9/28/86	12.085%	11.908% qtr.
Vermont Electric #290	9/28	1,540,000.00	9/30/86	12.085%	11.908% qtr.
Kamo Electric #266	9/28	1,947,000.00	9/30/86	12.085%	11.908% qtr.
Southern Illinois Power #98	9/28	536,000.00	9/28/86	12.085%	11.908% qtr.
Kansas Electric #216	9/28	1,248,000.00	9/30/86	12.085%	11.908% qtr.
Basin Electric #232	9/28	23,000.00	9/28/86	12.085%	11.908% qtr.
Basin Electric #272	9/28	618,000.00	9/30/86	12.081%	11.904% qtr.
Central Electric #131	9/28	40,000.00	9/29/86	12.085%	11.908% qtr.
Tex-La Electric #208	9/28	3,472,000.00	9/28/86	12.085%	11.908% qtr.
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
Development Corp. of Mid. GA	9/5	31,000.00	9/1/99	12.902%	
The St. Louis Local Dev. Co.	9/5	52,000.00	9/1/99	12.902%	
Columbus Countywide Dev. Corp.	9/5	63,000.00	9/1/99	12.902%	
Indiana Statewide C.D.C.	9/5	63,000.00	9/1/99	12.902%	
Cleveland Area Dev. Fin. Corp.	9/5	84,000.00	9/1/99	12.902%	
Illinois Sm. Bus. Gr. Corp.	9/5	100,000.00	9/1/99	12.902%	
Tucson L.D.C. of Tucson	9/5	187,000.00	9/1/99	12.902%	
Business Dev. Corp. of Nebraska	9/5	200,000.00	9/1/99	12.902%	
Areawide Dev. Corporation	9/5	226,000.00	9/1/99	12.902%	
North Texas Reg. Dev. Corp.	9/5	273,000.00	9/1/99	12.902%	
South Eastern Econ. Dev. Corp.	9/5	294,000.00	9/1/99	12.902%	
Scioto Econ. Development Corp.	9/5	310,000.00	9/1/99	12.902%	
City of Spartanburg Dev. Corp.	9/5	27,000.00	9/1/04	12.873%	
Crossroads EDC of St Charles	9/5	28,000.00	9/1/04	12.873%	
The St. Louis Local Dev. Co.	9/5	29,000.00	9/1/04	12.873%	
Development Corp. of Mid. GA	9/5	32,000.00	9/1/04	12.873%	
Central Ozarks Dev., Inc.	9/5	41,000.00	9/1/04	12.873%	
The Bus. Dev. Corp. of Nebraska	9/5	45,000.00	9/1/04	12.873%	
Columbus Countywide Dev. Corp.	9/5	53,000.00	9/1/04	12.873%	
Port Jarvis Development Corp.	9/5	57,000.00	9/1/04	12.873%	
The Bus. Dev. Corp. of Nebraska	9/5	59,000.00	9/1/04	12.873%	
Jacksonville L.D.C., Inc.	9/5	63,000.00	9/1/04	12.873%	
Gr. Spokane Bus. Dev. Assoc.	9/5	84,000.00	9/1/04	12.873%	
Central Ozarks Dev., Inc.	9/5	85,000.00	9/1/04	12.873%	

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State & Local Development Company Debentures (Cont'd)					
Gr. Salt Lake Bus. District	9/5	$ 95,000.00	9/1/04	12.873%	
The Bus. Dev. Corp. of Nebraska	9/5	100,000.00	9/1/04	12.873%	
Columbus Countywide Dev. Corp.	9/5	103,000.00	9/1/04	12.873%	
Texas Certified Dev. Co., Inc.	9/5	105,000.00	9/1/04	12.873%	
Bristol County Chamber L.D.C.	9/5	105,000.00	9/1/04	12.873%	
Texas Cert. Dev. Co., Inc.	9/5	106,000.00	9/1/04	12.873%	
Urban County Com. Dev. Corp.	9/5	108,000.00	9/1/04	12.873%	
San Diego County L.D.C.	9/5	112,000.00	9/1/04	12.873%	
Middle Flint Area Dev. Corp.	9/5	117,000.00	9/1/04	12.873%	
Wilmington Indus. Dev. Corp.	9/5	122,000.00	9/1/04	12.873%	
Brockton Reg. Econ. Dev. Corp.	9/5	122,000.00	9/1/04	12.873%	
Rural Missouri, Inc.	9/5	129,000.00	9/1/04	12.873%	
Crossroads EDC of St Charles	9/5	130,000.00	9/1/04	12.873%	
Cincinnati Local Dev. Co.	9/5	139,000.00	9/1/04	12.873%	
Empire State Cert. Dev. Corp.	9/5	144,000.00	9/1/04	12.873%	
Greater Southern Oregon CDC	9/5	147,000.00	9/1/04	12.873%	
Econ. Dev. Fdn. of Sacramento	9/5	193,000.00	9/1/04	12.873%	
Panhandle Area Council, Inc.	9/5	204,000.00	9/1/04	12.873%	
Greater Bakersfield	9/5	210,000.00	9/1/04	12.873%	
Toledo Econ. Plan. Coun., Inc.	9/5	217,000.00	9/1/04	12.873%	
L.D.C. Urban Bus. Dev. Corp.	9/5	218,000.00	9/1/04	12.873%	
Long Island Dev. Corp.	9/5	225,000.00	9/1/04	12.873%	
VERD-ARK-CA Dev. Corp.	9/5	226,000.00	9/1/04	12.873%	
No. Community Investment Corp.	9/5	249,000.00	9/1/04	12.873%	
Long Island Dev. Corp.	9/5	255,000.00	9/1/04	12.873%	
Florida First Cap. Fin. Corp.	9/5	277,000.00	9/1/04	12.873%	
San Diego County L.D.C.	9/5	284,000.00	9/1/04	12.873%	
Fulton County Cert. Dev. Corp.	9/5	358,000.00	9/1/04	12.873%	
Long Island Development Corp.	9/5	360,000.00	9/1/04	12.873%	
Long Island Development Corp.	9/5	360,000.00	9/1/04	12.873%	
S.W. Ill. Areawide Bus. D.F.C.	9/5	447,000.00	9/1/04	12.873%	
Hamilton County Dev. Co., Inc.	9/5	449,000.00	9/1/04	12.873%	
The St. Louis County L.D.C.	9/5	500,000.00	9/1/04	12.873%	
Granite State Econ. Dev. Corp.	9/5	500,000.00	9/1/04	12.873%	
Cincinnati Local Dev. Co.	9/5	500,000.00	9/1/04	12.873%	
Nine County Dev. Inc.	9/5	22,000.00	9/1/09	12.826%	
Neuse River Dev. Auth., Inc.	9/5	40,000.00	9/1/09	12.826%	
Eastern Ohio Dev. Coun., Inc.	9/5	79,000.00	9/1/09	12.826%	
Northern Community Inv. Corp.	9/5	86,000.00	9/1/09	12.826%	
River East Progress, Inc.	9/5	116,000.00	9/1/09	12.826%	
Clark County Dev. Corp.	9/5	124,000.00	9/1/09	12.826%	
San Diego County L.D.C.	9/5	124,000.00	9/1/09	12.826%	
Tucson L.D.C. of Tucson	9/5	163,000.00	9/1/09	12.826%	
Orig Aurora & Colorado Dev Co	9/5	189,000.00	9/1/09	12.826%	
Jacksonville L.D.C., Inc.	9/5	205,000.00	9/1/09	12.826%	
Columbus Countywide Dev. Corp.	9/5	210,000.00	9/1/09	12.826%	
Washington, D.C. L.D.C.	9/5	215,000.00	9/1/09	12.826%	
Oshkosh Com. Dev. Corp., Inc.	9/5	238,000.00	9/1/09	12.826%	
Peoria Econ. Dev. Assoc.	9/5	244,000.00	9/1/09	12.826%	
Columbus Countywide Dev. Corp.	9/5	263,000.00	9/1/09	12.826%	
Long Beach Local Dev. Corp.	9/5	269,000.00	9/1/09	12.826%	
The Mid-Atlantic Cert. Dev. Co.	9/5	273,000.00	9/1/09	12.826%	
Bay Area Bus. Dev. Co.	9/5	325,000.00	9/1/09	12.826%	
Columbus Countywide Dev. Corp.	9/5	336,000.00	9/1/09	12.826%	
Bay Area Business Dev. Co.	9/5	336,000.00	9/1/09	12.826%	
Bay Area Business Dev. Co.	9/5	365,000.00	9/1/09	12.826%	
Bay Area Business Dev. Co.	9/5	388,000.00	9/1/09	12.826%	
The St. Louis Local Dev. Co.	9/5	407,000.00	9/1/09	12.826%	
Bay Area Business Dev. Co.	9/5	425,000.00	9/1/09	12.826%	
Phoenix Local Development Corp.	9/5	452,000.00	9/1/09	12.826%	
Ocean State Bus Dev Auth, Inc	9/5	500,000.00	9/1/09	12.826%	
Bay Colony Dev. Corp.	9/5	500,000.00	9/1/09	12.826%	
San Diego County L.D.C.	9/5	500,000.00	9/1/09	12.826%	
Area Inv. & Dev. Corp., Inc.	9/5	500,000.00	9/1/09	12.826%	
Wisconsin Bus. Dev. Fin. Corp.	9/5	500,000.00	9/1/09	12.826%	
Railbelt Community Dev. Corp.	9/5	500,000.00	9/1/09	12.826%	

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Small Business Investment Company Debentures					
Advent III Capital Company	9/26	3,000,000.00	9/1/87	12.425%	
Chestnut Capital Corporation	9/26	500,000.00	9/1/87	12.425%	
New West Partners	9/26	1,500,000.00	9/1/87	12.425%	
North Star Ventures, Inc.	9/26	2,000,000.00	9/1/87	12.425%	
North Star Ventures, Inc.	9/26	1,000,000.00	9/1/87	12.425%	
SBIC of Connecticut	9/26	500,000.00	9/1/87	12.425%	
Albuquerque Sm. Bus. Inv. Co.	9/26	250,000.00	9/1/89	12.635%	
Frontenac Capital Corp.	9/26	1,000,000.00	9/1/91	12.705%	
Round Table Capital Corp.	9/26	600,000.00	9/1/91	12.705%	
Seaport Ventures, Inc.	9/26	1,000,000.00	9/1/91	12.705%	
Banc Texas Capital, Inc.	9/26	500,000.00	9/1/94	12.645%	
First Midwest Capital Corp.	9/26	500,000.00	9/1/94	12.645%	
Hamco Capital Corporation	9/26	1,000,000.00	9/1/94	12.645%	
Midland Venture Cap. Ltd.	9/26	2,000,000.00	9/1/94	12.645%	
RIHT Capital Corp.	9/26	2,000,000.00	9/1/94	12.645%	
S.W. Capital Investments, Inc.	9/26	1,800,000.00	9/1/94	12.645%	
White River Capital Corp.	9/26	400,000.00	9/1/94	12.645%	
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-84-14	9/28	516,051,766.55	12/31/84	10.785%	
DEPARTMENT OF TRANSPORTATION					
Section 511--4R Act					
Milwaukee Road #511-2	9/14	87,826.00	6/30/06	12.520%	

FEDERAL FINANCING BANK

SEPTEMBER 1984 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Gabon	DOD	$ 3,000,000.00	8/15/86	2/15/90
Tunisia	DOD	5,000,000.00	9/15/86	9/15/96
Ecuador	DOD	6,000,000.00	7/31/86	7/31/96
Kenya	DOD	10,000,000.00	7/25/86	7/25/96
Malaysia	DOD	10,000,000.00	8/25/86	8/25/91
Indonesia	DOD	20,000,000.00	8/12/86	8/12/93
Portugal	DOD	45,000,000.00	4/10/86	4/10/96
Philippines	DOD	50,000,000.00	9/12/86	9/12/96
Korea	DOD	100,000,000.00	9/5/86	6/30/96
Provo, Utah	HUD	4,500,000.00	8/1/85	8/1/90
Boston, MA	HUD	1,800,000.00	10/1/85	10/1/05
EDIC of Boston, MA	HUD	3,200,000.00	10/1/86	10/1/05
Philadelphia AID, PA	HUD	1,260,810.00	10/1/85	10/1/03
New Haven, CT	HUD	1,077,500.00	9/1/85	9/1/04
Kenosha, WI	HUD	57,343.99	6/1/85	6/1/85
Lynn, MA	HUD	9,895,699.00	8/15/85	8/15/85
Pomona, CA	HUD	610,273.65	8/1/85	8/1/85
Marias River Electric	REA	475,000.00	10/1/91p	12/31/18p
Arkansas Electric	REA	55,055,000.00	10/1/91p	12/31/18p
Oglethorpe Power	REA	51,946,000.00	10/1/91p	12/31/18p
Central Iowa Power	REA	36,600,000.00	10/1/91p	12/31/18p
Colorado-Ute Electric	REA	65,140,000.00	10/1/91p	12/31/18p
Northern Electric	REA	605,000.00	10/1/91p	12/31/18p
Plains Electric	REA	109,402,000.00	10/1/91p	12/31/18p
Soyland Power	REA	143,612,000.00	12/31/87	12/31/17
Western Illinois Power	REA	142,369,000.00	12/31/87	12/31/17
Wilmington Trust Co.*	NAVY	225,000,000.00	12/7/89	7/15/09

p = preliminary
*owner trustee

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	September 30, 1984	August 31, 1984	Net Change 9/1/84-9/30/84	Net Change--FY 1984 10/1/83-9/30/84
On-Budget Agency Debt				
Tennessee Valley Authority	$ 13,435.0	$ 13,305.0	$ 130.0	$ 320.0
Export-Import Bank	15,689.8	15,563.4	126.5	1,014.0
NCUA-Central Liquidity Facility	268.9	195.0	73.9	224.7
Off-Budget Agency Debt				
U.S. Postal Service	1,087.0	1,087.0	-0-	-67.0
U.S. Railway Association	51.3	51.3	-0-	-73.4
Agency Assets				
Farmers Home Administration	59,511.0	59,196.0	315.0	2,820.0
DHHS-Health Maintenance Org.	116.1	116.1	-0-	-2.7
DHHS-Medical Facilities	132.0	132.0	-0-	-11.7
Overseas Private Investment Corp.	11.0	11.0	-0-	-5.3
Rural Electrification Admin.-CBO	3,536.7	3,467.5	69.2	69.2
Small Business Administration	40.1	40.6	-.5	-8.4
Government-Guaranteed Lending				
DOD-Foreign Military Sales	17,110.9	16,976.4	134.6	2,817.6
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loan Guarantees	6.2	4.3	2.0	-38.8
DOE-Non-Nuclear Act (Great Plains)	1,290.0	1,276.0	14.0	404.5
DHUD-Community Dev. Block Grant	208.3	224.0	-15.7	31.0
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,178.5	2,178.5	-0-	111.7
General Services Administration	413.3	413.3	-0-	-3.9
DOI-Guam Power Authority	36.0	36.0	-0-	-0-
DOI-Virgin Islands	28.7	28.7	-0-	-0.4
NASA-Space Communications Co.	954.6	916.1	38.5	7.4
DON-Defense Production Act	3.1	2.9	0.2	2.0
Rural Electrification Admin.	20,587.1	20,741.7	-154.6	1,648.2
SBA-Small Business Investment Cos.	860.3	854.8	5.5	56.0
SBA-State/Local Development Cos.	354.6	335.7	18.8	206.8
TVA-Seven States Energy Corp.	1,555.5	1,539.5	16.1	137.1
DOT-Amtrak	-0-	-0-	-0-	-880.0
DOT-Section 511	159.6	159.5	0.1	-24.0
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 144,836.2	$ 144,062.7	$ 773.5	$ 8,754.4

*figures may not total due to rounding

TREASURY NEWS

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

FOR IMMEDIATE RELEASE

November 8, 1984

RESULTS OF AUCTION OF 30-YEAR TREASURY BONDS

The Department of the Treasury has accepted $5,253 million of $9,740 million of tenders received from the public for the 30-year bonds auctioned today. The bonds will be issued November 15, 1984, and mature November 15, 2014.

The interest rate on the bonds 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	11.79% 1/	99.672
High	11.87%	99.021
Average	11.83%	99.345

Tenders at the high yield were allotted 14%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 157,178	$ 5,178
New York	8,153,928	4,804,763
Philadelphia	205	205
Cleveland	15,036	6,456
Richmond	9,526	7,666
Atlanta	10,737	8,737
Chicago	725,163	224,283
St. Louis	63,386	63,386
Minneapolis	2,661	2,661
Kansas City	10,838	10,838
Dallas	2,013	2,013
San Francisco	589,706	116,806
Treasury	101	101
Totals	$9,740,478	$5,253,093

The $5,253 million of accepted tenders includes $305 million of noncompetitive tenders and $4,948 million of competitive tenders from the public.

In addition to the $5,253 million of tenders accepted in the auction process, $750 million of tenders was accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

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

R-2920

TREASURY NEWS

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

REMARKS BY THE HONORABLE R. T. MCNAMAR
DEPUTY SECRETARY OF THE U.S. TREASURY
BEFORE THE
FGH ANNUAL SYMPOSIUM
THE NETHERLANDS

November 13, 1984

"EUROPE AND THE
ECONOMIC POLICIES OF THE
SECOND REAGAN ADMINISTRATION"

Thank you and good afternoon. It is a pleasure to be with you to discuss the thrusts of President Reagan's Administration during the second term. The election is now behind us and the President has received a clear mandate from the American people to continue the policies of the past four years which have led to a stronger and more vibrant United States economy.

The opportunity to discuss with you the plans of the Reagan Administration as it begins a second term is particularly important since in our world the political and economic decisions made in one capital of the world affect not only that country but all the other countries of the world as well. Therefore, today I not only want to discuss the actions I see the Administration taking, but just as importantly the context in which we view the world.

Indeed, let me suggest that for the major industrialized nations and all of Europe, the historical distinction between domestic economic policy and international economic policy simply no longer exists. They are one and the same.

Today, European domestic economic policy decisions affect the U.S. and obviously vice versa. Our fiscal and monetary policy influences yours. Your trade and investment policies influence ours. The economic destinies of our two continents are inexorably li...ed and intertwined with those of Japan. And the accelerating integration of the industrialized and developing economies of the world promises an even closer dependence tomorrow. This reality is well understood by the Reagan Administration.

TRIAD OF INTERDEPENDENCE

Our interdependence and mutual economic prospects are based on three integrated global systems: (1) our mutual security arrangements; (2) the international trading system; and (3) the international financial system. Each of these is dependent on the others if we are to achieve sustained non-inflationary economic growth and prosperity for the future. A brief overview of the importance of each of these three elements in the triad illustrates this new interdependence and demonstrates the inherent obligations and responsibilities.

Security System

The first element of the interdependence, and the one that provides a positive environment for the growth of international trade and financial transactions, is that of mutual security. We sometimes envision only threats to our political freedoms. However, it is readily apparent that there are very real military threats to our economic system as well.

In the United States, we regard NATO as crucially important to our mutual security. President Reagan demonstrated our resolve to ensure mutual security when, at the United Nations General Assembly, he stated:

> "The starting point and the cornerstone of our foreign policy is our alliance and partnership with our fellow democracies. For thirty-five years the North Atlantic Alliance has guaranteed the peace in Europe .... We're proud of our association with all those countries that share our commitment to freedom, human rights, the rule of law and international peace. Indeed, the bulwark of security that the democratic alliance provides is essential and remains esssential to the maintenance of world peace. Every alliance involves burdens and obligations, but these are far less than the risks and sacrifices that will result if the peace-loving nations were divided and neglectful of their common security."

I want to make clear my own view that despite differences on individual issues, NATO today is stronger and more unified than ever. This fact provides the crucial security underpinning for our r tual efforts to manage and build upon the economic opportunities of interdependence.

Trading System

The second key system in the triad is the world trading system. The growth of international trade that we have witnessed over the last decade has clearly served to integrate the world

into a more homogeneous marketplace. From 1975 to 1983, trade of the industrialized countries with all trading partners combined, doubled from $1.2 trillion to nearly $2.4 trillion. During this period, trade solely among industrialized countries grew from $765 billion to $1.6 trillion.

The Reagan Administration clearly recognizes international trade as a major and growing component of our economy. Our merchandise trade, exports plus imports, now totals 15 percent of GNP, compared with only 8 percent in 1970. In most of Europe, the percentages are higher: Italy 42 percent of GNP now vs. 29 percent in 1970; France 37 percent now vs. 24 percent in 1970; Belgium 10.7 percent now vs. 6.3 percent in 1970; Netherlands 10.5 percent now vs. 5.8 percent in 1970. Such statistics only amplify the importance of international trade which each of you works with on a daily basis.

The growth of any economy is dependent on the economic prospects in the rest of the world. The growth of the United States economy and the manner in which it has helped to bolster the economic prospects of other industrialized countries and LDCs during the last two years is a perfect example of this point. Our current trade deficit is the reciprocal of Europe, Japan, and the LDC's export surge in 1983 and 1984.

Financial System

The third element of this triad of interdependence is the accelerating integration of worldwide capital markets. There now exists one worldwide market for a wide spectrum of financial transactions. As a result of computerized telecommunications, we now transmit billions of dollars across the world in less time than it takes to physically present a check or to make a savings deposit. The inevitable result is this rapidly accelerating unification of the world's capital markets.

The growth and development of international financial markets has fundamentally altered the relationship between trade and capital flows. As I mentioned earlier, currently international trade in goods and services totals approximately $2 trillion per year. By comparison, capital flows are in the $20-30 trillion range or 15 times that of goods and services.

With such large financial flows, no nation can ignore its financial ties with other nations. The interbank market is exclusively international in character, and it is virtually homogeneous. Disintermediation is no longer a domestic policy issue -- it is an international phenomenon in which we are all participating. Just as it used to be said that the sun never sets on the British empire, now it can be said that the sun never

sets when banks and stock exchanges somewhere in the world are open for business and exchanging telexes with those on the dark side of the globe.

Obligations of Interdependence

As one reviews these three components of the triad of economic interdependence, it is important to realize that this interdependence carries significant opportunities and important obligations and responsibilities.

To ensure our mutual security, a real commitment of resources, both monetary and other, is needed. Currently, the United States commitment to ensuring the security of Europe is significant. It is important for Europe to realize that part of the reason for projected United States budget deficits comes from this Administration's commitment to ensuring mutual security. As in the other areas of interdependence, it will be increasingly important for all involved parties to increase their resources to ensure that stable and secure environment endures.

In the area of trade policies, we must all work to avoid protectionism. As we all know, protectionism in the long term will constrain worldwide growth and preclude efficient allocation of the world's resources. While the United States' record isn't perfect, during the last four years, the United States has undertaken numerous efforts to reduce protectionism and open its borders to international trade. These include: (1) the President rejecting ITC recommendations for quotas and tariffs on steel imports; (2) rejection by the United States of all five petitions for import relief received this year; (3) the call by the United States for a new international round of trade negotiations; and (4) the passage of the major new piece of trade legislation, the Trade and Tariff Act of 1984, which represents a major victory for liberal trade policies.

As a measurement of the United States' leadership against protectionism, total U.S. imports have risen 34 percent in 1984 with imports of textiles up 55 percent and steel up 70 percent. During the next four years, the emphasis in the United States will be to continue to reduce further protectionism and focus on fair and free trade arrangements between countries. Unfortunately, the picture on the international trade front is not all progress. In particular, there are a number of stubborn, long-standing issues in the trade area between the U.S. and the EC. Progress in these and other areas is important to our overall efforts to contain and roll back protectionist measures. These include:

- o Problems with the Common Agricultural Policy (CAP) have led to continual threats to U.S. access to the EC market for agricultural products, especially soybeans and corn gluten. At the same time, CAP export subsidies have tended to hurt U.S. exports in third markets.

- o We have been unable to secure EC cooperation in our effort to increase discipline and transparency over use of mixed export credits.

- o EC insistence on changes in GATT rules to allow it to apply quantitative import restrictions on a "selective" (i.e. discriminatory) basis has blocked attempts to negotiate a new Safeguard Code in the GATT. This EC position dates from 1976.

- o In response to EC and other complaints, the U.S. undertook a major overhaul of the DISC tax program, replacing it with an extraterritorial system. Nevertheless, we already face threats to challenge the replacement FSC.

- o European restrictions on imports of Japanese products has led to increased Japanese market penetration in the U.S., which has increased domestic political pressures in the U.S.

The very fact that these issues have been unresolved suggests to me that appropriate action is long overdue. We feel that an improving economic environment such as we are experiencing both in the United States and Europe is the best time to address some of these trade issues.

Again, I cannot emphasize enough the importance of worldwide interdependence and competition as we attempt to resolve these trade issues. The very fact that there is a shift of trade and direct investment from the United States toward the Pacific Basin and away from the EC addresses the need to resolve these issues if the long-term position of European countries in the worldwide trade picture is to be maintained.

In the area of international finance, the unification of capital markets necessitates strong, stable policies by all countries. In 1982 and 1983, under the aegis of the IMF and working with the BIS and European monetary authorities, the Reagan Administration and our Canadian and Japanese partners prevented the international debt problems of the developing countries from becoming an international financial crisis that could have converted a worldwide recession into a worldwide

depression. None of us could have done it alone. We were dependent on each other because of the worldwide financial market.

Our efforts in this area have also included the removal of withholding tax paid on interest to foreigners, a foreign targetted Treasury security, and negotiation for a yen/dollar agreement to liberalize the domestic Japanese capital market and to increase the depth and breadth of the market for yen assets. Just as a liberal trade regime increases economic well-being by enhancing the efficiency of resource allocation, so do measures such as these which are designed to improve the efficiency of international capital markets.

The new order of interdependence places significant importance on and interest in the Reagan Administration's economic priorities for the next four years. The efforts of this Administration in dealing with a myriad of economic and political situations has an impact far beyond the borders of my country.

Reagan Economic Policies

As this Administration took office, it mapped out an economic "game plan" which went far beyond individual programs to identify a new vision. In the last four years, this Administration has done much of what it said it would. In the next four years, the Administration will build on its identified program, and I feel confident in saying that we will achieve much more of our agenda.

Let's briefly look at the situation four years ago and the progress that has been made since then. In 1981, the President faced a fundamental economic problem: lack of real growth. The United States had entered a period of slow economic growth and high inflation primarily due to previous federal policies obstructing the major sources of growth.

The incentives for productive work and investment were being eaten up by a combination of taxes and inflation. The federal government was taking an ever-increasing share of economic resources with federal spending rising at an annual rate of 17 percent in 1980 alone. And workers found that an hour's work was not only worth less in real terms because of inflation, but also that because of inflation they were being forced into higher and higher tax brackets. Periodically, negative real interest rates existed for depositor and lender alike. Real returns to capital were minimal or negative. Small wonder the U.S. economy was faltering.

To counteract this, President Reagan's economic policy was then and is now centered around a four-part program announced in 1981. The four interrelated elements are:

1. A stringent budget policy to release resources to the private sector for investment and growth;

2. An incentive tax reduction policy to increase the supply and lower the cost of labor and capital, thereby encouraging work effort, savings, and investment;

3. A non-inflationary monetary policy to end inflation and reduce the higher interest rates and disincentives that inflation and the Tax Code combined to produce; and

4. A regulatory reform program to reduce the enormous regulatory inefficiencies and costs that are holding back production and raising prices.

The objective was to make the American economy once more the best possible place to work, save, and invest. And, to begin restoring both the incentives and the flexibility to the American economy that were lost in the late 1960's and 1970's.

I am sure you are familiar with the results. Our prescription was the right one for the ails of the American economy.

- o Contrary to the forecast of most economists who predicted only a slow recovery, real GNP rose at a 6.4 percent annual rate in the first seven quarters of the current expansion -- faster than in any U.S. recovery since the Korean War in the 1950's. Growth has slowed somewhat in the third quarter, but we believe this is a natural consequence of a rapid 8 1/2 percent pace in the first half of the year.

- o Employment has risen by about 6.5 million people during the current recovery, with the unemployment rate falling from 10.7 percent at the end of 1982 to 7.4 percent, and the proportion of the working age population that is employed nearly reaching the all-time peak.

- o Expansion has come in an environment of exceptionally low inflation. Inflation has fallen from nearly 13 percent in 1979-80 to approximately

4 percent this year in consumer prices. Our producer or wholesale prices have fallen three months in a row, and are rising only at a 1.5 percent rate.

- Productivity growth (essential for raising living standards or containing inflation) has been rising. After virtually no growth in the previous five years, productivity in the non-farm business sector rose strongly by 4 percent in 1983 and at a 4 percent annual rate in the first half of this year.

The progress that we have made during the last four years suggests that the fundamentals are right for long-term growth in the United States. As the President has often said, we have come a long way but still feel that there are important actions that remain for sustainable long-term non-inflationary growth. To achieve this objective, you can look for the President to again focus on the four key elements of the program first introduced in 1981 with renewed energies and conviction.

Federal Government Spending

First, we will renew our efforts to further cut the rate of growth in federal spending. From a philosophical view, we feel it is essential to have the private sector take a greater role if we are to achieve sustainable non-inflationary growth. From a practical view, we feel this is clearly the best way to reduce the budget deficits.

This Administration, just as the governments of Europe and many constituencies within the U.S., is very concerned about budget deficits. They are a sign that the government is over-spending and taking too much of the economy's scarce resources. It is government spending which tends to crowd out the private economy, affect monetary policy, and influence consumer and investor expectations. Consequently, extremely high real interest rates are induced, which affect the exchange rate, trade, and therefore sustained non-inflationary real economic growth.

To understand my Administration's view of fiscal policy, one needs to view it in the context of classical micro-economic terms. In essence, government spending is the true tax burden. Government spending diverts labor, capital, and output from the private sector to the public sector regardless if it is paid for by taxing or borrowing. A reduction in government spending is stimulative because it returns real and financial resources to the private sector.

Beyond these philosophical arguments, an analysis of today's situation in the U.S. indicates that government spending, not tax cuts, is the source of the deficit. We project that long-term government revenues will average approximately 19.5 percent of GNP between 1985-89 under our proposals. This is slightly higher than the period of 1964-1979. (In fact, peacetime receipts have seldom been higher when past recessions are excluded.) However, spending is far above its historical levels. Federal government spending was 19.8 percent of GNP from 1964-74 and 22 percent from 1975-79. In 1983, it was almost 25 percent of GNP. If major budget changes are to be made, they will have to be made in the spending levels, not taxes. We will simply have to make some very difficult spending decisions with the realization that our government's resources are limited in the near term.

As a result, we will be proposing further cuts in the rate of growth of government spending. It is important, however, that you realize that our political system, in contrast to yours, presents significant difficulties in implementing spending cuts proposed by the President. In our system, budgetary responsibilities are split between the Executive and Legislative Branches. Unlike European parliamentary systems, the President does not control his party's votes in the legislative chamber. In addition, we no longer have the strong tradition of party discipline that characterizes parliamentary government. In our Congress, each member is independent to vote based on local constituencies and influences.

I do want to make it clear, however, that we are thoroughly committed to reducing the rate of growth of spending and thereby the deficits. We expect to achieve this in the short term and, while involved in the process, build structural tools which will ensure adequate spending controls in the future. Two of the most important tools which the President has proposed are the balanced budget amendment and the line item veto. The balanced budget amendment will provide an institutional force to ensure that programs of individual constituencies are not passed at the cost of overall fiscal limits. The line item veto will give the President authority to review individual components of a spending bill and thereby provide that spending is in line with the government's ability to raise revenues. Only in this way can we ensure that the old tax and spend, stop-go pattern of government policy will not return to the U.S. and provide a legacy for the global economy as well as the U.S.

Tax Policies

Second, the Administration will continue to reduce personal income tax rates and thereby create added incentives for work, productivity, saving and investment.

The tax cut enacted in 1981 has had a significant impact on the recovery of our economy. Marginal tax rates were reduced by roughly 25 percent over three years, from the previous range of 14 percent at the bottom and 70 percent at the top to 11 percent to 50 percent. In addition, starting in 1985, tax brackets will be adjusted or indexed for inflation to prevent bracket creep in the future. During the last four years, we have also been successful in reducing the recovery period for business investment, which thereby encouraged investment by increasing the real after-tax rate of return of productive business activities.

However, our tax system remains heavily biased toward borrowing and consumption -- in essence creating a disincentive for savings. This complicates our efforts to raise the capital needed to ensure sustained non-inflationary growth. Given our tax system biases, it is not surprising that the U.S. savings rate is low relative to other countries.

Attention in the second term will be on further reducing rates through a broadening of the tax base, which will better reward saving and investment. We at Treasury are now in the process of completing a detailed study to recommend broadening and simplification of the tax system while achieving revenue neutrality. In other words, our objective has been to generate the same absolute amount of revenues for the government, but to do this through lower rates and a broadened base to better encourage productive economic activity.

This analysis has involved four forms of possible tax structures: a flat tax, a modified flat tax, consumption taxes such as sales or VAT, and a consumed income tax. We anticipate reporting the results to the President in December for his review prior to his State of the Union message at the end of January. My personal view is that the recommendation will most likely involve a modified flat tax with lower rates and reduced tax deductions. While each of the options studied has relative advantages and disadvantages, it appears that the modified flat tax best achieves a marriage between fundamental goals and the realities of implementing a new system.

After we complete implementation of tax reform, we feel that the tax system will better encourage savings relative to consumption and provide the necessary capital to finance long-term growth. With the combination of the absolute tax cut in 1981 and the implementation of a reform of our tax system, we feel that the second objective of the President's program will be achieved.

Reducing Structural Rigidities

The third element of the President's program has involved instituting a far-reaching program of regulatory relief. We, and this includes Democrats as well as Republicans, have recognized that highly regulated industries were simply not competitive in today's world. In essence, regulated firms lose the flexibility to adapt to changes which are fundamental to remaining competitive in dynamic, worldwide economic environments.

Consequently, we in the government have sought to provide greater freedom for private industry. The gradual drift toward greater and greater concentration of rule-making and decision-making in Washington is being reversed. This is, of course, in sharp contrast to many of the recent trends here in Europe.

In recent years, even going back to the late 1970's, there have been notable successes in deregulation -- of financial intermediaries, of energy prices, of trucking, and of airlines. While the transition in these industries has not been easy, we are confident that a deregulated industry ensures a more efficient allocation of resources and better positions individual firms to adapt to the myriad of changes facing all industries worldwide. In addition, achievements in the regulatory area under the Reagan Administration have already resulted in a one-time cost saving of between $9 and $11 billion and recurring annual savings of roughly $6 billion each and every year.

Over the next four years, we will continue our efforts to deregulate particular industries and reduce the involvement of government in other industries. As examples, we are now in the midst of and have completed some initial steps toward deregulating our financial institutions and in the process of selling Conrail, the large freight carrier in the Northeast, to private concerns.

At the risk of being controversial, as a friend I should say to European policymakers that increasing the flexibility and adaptability of the United States' economy is already paying handsome dividends for us and has substantial long-term implications for you. In a world where economic markets are becoming more unified and homogeneous, if the United States has a substantial economic advantage over more structurally rigid and overly regulated European economies, we will in the long run continue to out-perform you.

In essence, the issue is whether the market allocation of resources is quicker, more efficient, and provides a better standard of living than a more dirigisme allocation process.

Clearly, the rapidly industrialized nations of Asia have followed the United States' and Japan's market allocation example. If Europe is to compete in a worldwide marketplace, perhaps it is time to reconsider those EC and individual country policies that are currently hindering Europe's initiative, adaptation, and therefore economic growth.

Monetary Policy

The final element of the President's program involves renewing the Administration's commitment, in cooperation with the Federal Reserve, to a monetary policy that will generate a stable currency and healthy financial market. The Fed, for a variety of reasons, was within its target ranges for M1 for only 54 of the 156 weeks between January 1981 and January 1984. The goal is a moderate and steady growth of the money supply at rates consistent with stable prices.

During the first Reagan Administration, we have consistently advocated that the Federal Reserve provide a slow steady growth in the money supply. This is the most apolitical and non-inflationary approach to monetary policy. We believe it is therefore the best policy for the United States.

While we do feel free urging the Fed to increase the growth rate of the money supply when it overstays a too restrictive growth policy or to reduce the rate of growth in the money supply when we believe it overstays a too expansionary policy, our objective is to have the minimum inflation consistent with maximum sustained real economic growth. Although it is easy to find much fault with past Fed results, on balance we have been pleased with past Fed policies and expect to be satisfied with future Fed performance. In sum, you should anticipate no major change in United States' monetary policy during a second Reagan Administration.

CONCLUSION

The cumulative effect of these United States policies and the progress that follows is the continued gradual shift on our part to a country and people that increasingly will rely on the private sector to generate sustainable growth. Deficits, as a percent of GNP, will be reduced through growth and aggressive reductions in the rate of growth in spending. Tax rates will be reduced, not increased, to encouraged productive actions. In essence, this Administration will continue to reduce the role of government and ensure that it provides the necessary support mechanisms for success.

Last week's election placed an important stamp of approval on the Reagan Administration's economic policies. I am happy to convey to you that there is a new sense of confidence in the United States' economic future and a new burst of entrepreneurial optimism. We all have reason to look toward the future with anticipation.

Indeed, we campaigned for reelection on the theme that "America is back: prouder, stronger, and better." On November 6th, the American people obviously agreed. I would only add that I think we are also wiser, and the world is better for it.

Thank you.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 13, 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 $13,600 million, to be issued November 23, 1984. This offering will provide about $550 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $13,039 million, including $1,319 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,275 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 $6,800 million, representing an additional amount of bills dated February 23, 1984, and to mature February 21, 1985 (CUSIP No. 912794 GH 1), currently outstanding in the amount of $15,167 million, the additional and original bills to be freely interchangeable.

181-day bills for approximately $6,800 million, to be dated November 23, 1984, and to mature May 23, 1985 (CUSIP No. 912794 HD 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 23, 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.

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Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, November 19, 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. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than $1,000,000.

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, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned 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 23, 1984, in cash or other immediately-available funds or in Treasury bills maturing November 23, 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. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, 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 13, 1984

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 6,801 million of 13-week bills and for $ 6,802 million of 26-week bills, both to be issued on November 15, 1984, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 14, 1985			26-week bills maturing May 16, 1985		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	8.71% a/	9.03%	97.798	8.98%	9.54%	95.460
High	8.75%	9.07%	97.788	9.00%	9.56%	95.450
Average	8.73%	9.05%	97.793	8.99%	9.55%	95.455

a/ Excepting 1 tender of $6,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 7%.
Tenders at the high discount rate for the 26-week bills were allotted 66%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 385,100	$ 38,600	$ 391,865	$ 41,865
New York	16,941,795	5,734,395	13,972,080	5,321,180
Philadelphia	27,540	27,540	18,200	18,200
Cleveland	80,390	60,390	28,555	28,555
Richmond	64,310	48,450	79,175	47,475
Atlanta	46,920	46,920	42,415	32,415
Chicago	862,950	143,750	1,241,275	532,125
St. Louis	42,760	42,760	58,640	38,300
Minneapolis	33,970	33,970	37,840	36,840
Kansas City	53,910	52,980	65,060	62,035
Dallas	38,020	33,370	28,105	26,405
San Francisco	1,188,955	225,390	1,732,720	216,380
Treasury	312,875	312,875	400,715	400,715
TOTALS	$20,079,495	$6,801,390	$18,096,645	$6,802,490
Type				
Competitive	$17,611,730	$4,333,625	$15,437,605	$4,143,450
Noncompetitive	1,106,090	1,106,090	989,600	989,600
Subtotal, Public	$18,717,820	$5,439,715	$16,427,205	$5,133,050
Federal Reserve	1,219,315	1,219,315	1,100,000	1,100,000
Foreign Official Institutions	142,360	142,360	569,440	569,440
TOTALS	$20,079,495	$6,801,390	$18,096,645	$6,802,490

An additional $30,440 thousand of 13-week bills and an additional $106,360 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

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