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TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 1, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $14,000 million, to be issued October 10, 1985. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $14,082 million. 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 7, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately $7,000 million, representing an additional amount of bills dated July 11, 1985, and to mature January 9, 1986 (CUSIP No. 912794 JM 7), currently outstanding in the amount of $7,248 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $7,000 million, to be dated October 10, 1985, and to mature April 10, 1986 (CUSIP No. 912794 KA 1).

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.

The bills will be issued for cash and in exchange for Treasury bills maturing October 10, 1985. Tenders from Federal Reserve Banks for their own account 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. Federal Reserve Banks currently hold $1,103 million as agents for foreign and international monetary authorities, and $3,201 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

B-294

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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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

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

FOR IMMEDIATE RELEASE
EXPECTED AT 2:00 P.M.
OCTOBER 2, 1985

STATEMENT OF JOHN D. LANGE, JR.
DIRECTOR, OFFICE OF TRADE FINANCE
UNITED STATES TREASURY
BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

We are grateful to the subcommittee and to you, Mr. Chairman, for permitting us to present the Administration's initiative for a so-called War Chest to combat tied aid credits. It is a major offensive in the President's campaign against foreign unfair trade practices. The legislation is designed to foster free and fair trade -- to establish a balanced competitive environment where U.S. businesses can compete fairly.

Our initiative is not designed to create a new subsidy program to promote exports. This legislation purposely avoids setting up an unfair trade practice of our own to mimic the unfair trade practices of other countries. On the contrary, the War Chest will provide the necessary leverage on governments to join the great majority of our industrial nation trading partners and negotiate an end to the misuse of tied or partially untied aid credits for predatory commercial purposes.

The Tied Aid Credit Problem

We should recognize at the outset that most of our negotiating objectives have been achieved in the field of export credits. After several years of negotiations, the 22 OECD nations revised the Arrangement on Export Credits in November 1983 to reduce greatly and in many instances eliminate export credit subsidies.

In the last year, we further agreed to essentially eliminate financial subsidies for nuclear power projects and large commercial aircraft. Moreover, participating countries, including France, agreed to prohibit the use of any tied aid credits whatsoever in these two important sectors. These

agreements by OECD member governments are among the most significant recent advances in free trade.

With the reduction of export credit subsidies, however, tied aid credits, which use aid alone or in combination with normal export credit financing, have become a more important problem for U.S. exporters. The scope of the problem is revealed by the following:

-- A recent OECD study, prepared at the behest of OECD Ministers, concluded that tied aid credits with low levels of concessionality distort aid and trade more than credits with high grant elements.

-- The number of notified tied aid credits with low grant elements has doubled since 1982.

-- The OECD predicts that the amount of such offers will increase to over $6.0 billion in 1985.

-- Although many other countries have adopted programs to match France, French tied aid credits still account for one-third of all tied aid credits with grant elements below 50 percent and more than one-half of all tied aid credits with grant elements below 35 percent.

These credits, when used for commercial purposes in the guise of foreign aid, represent an unfair trade practice, have caused the United States to lose key export sales, and have diverted funds away from development assistance. Thus, the continued use of commercially motivated tied aid credits threatens to undermine the Arrangement and increase international trade tensions.

<u>The Negotiating Impasse</u>

The clearest, simplest, and most direct solution to the problem of commercially motivated tied aid credits is to raise the minimum permissible grant element from the current 25 percent to 50 percent, a proposal presented by the United States to the OECD Export Credits Group in December 1983. While it would not completely eliminate the problem, it would make the cost of such credits so high that no country's aid budget could sustain such a diversion from real economic development assistance.

Increasing the minimum permissible grant element to 50 percent is not so shocking as it may appear. The most recent OECD Development Assistance Committee statistics show that the average grant element of all aid provided by these countries

was almost 90 percent in recent years. If one excludes grants, the average grant element of loans ranged between 56 and 59 percent.

To date, negotiations on tied aid credits have recorded modest successes. In 1982, OECD governments agreed to ban tied aid credits with a grant element below 20 percent. In April 1985, OECD Ministers improved discipline by raising the minimum permissible grant element from 20 to 25 percent and improved transparency through new prior notification and consultation procedures. The Ministers also directed OECD committees to develop new measures to further improve discipline and transparency. In July the Export Credits Group reached agreement on defining the tied aid credits which are causing the problem.

The U.S. Government welcomes these interim steps but, unfortunately, we have now reached an impasse. While most industrialized countries are prepared to accept greater discipline over tied aid credits, a few countries, notably France, supported by Italy, are now blocking negotiating progress. At the September 16-20 meeting of the OECD we were unable to make progress primarily because the European Community -- even with the Ministerial mandate -- had no flexibility to increase the minimum grant element or to explore alternative solutions.

We need a new initiative to break this logjam. The Trade Development and Enhancement Act of 1983, which created a tied aid credit matching program, has not given us sufficient leverage. Eximbank's ability to match has been limited since it must draw down its dwindling capital and reserves for this purpose. USAID action has been limited by the country allocation process and the requirement that its activities be for legitimate development purposes. The U.S. Government has thus offered only 12 tied aid credits since the bill was enacted. As a result, selective matching by the United States and more aggressive matching by other countries has not deterred France from continuing to offer predatory tied aid credits, nor has it encouraged France to negotiate.

The War Chest Initiative

To combat these unfair trade practices, the President has announced the following new initiative:

-- The Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for grants to mix with Eximbank credits or private sector loans. The purpose of this program of tied aid grants is to buttress the Administration's negotiating efforts to eliminate predatory tied aid credits by other countries.

-- The Export-Import Bank will begin immediately to draw on its capital and reserves to offer tied aid credits as a temporary step until the proposed legislation is enacted.

-- The Secretary of the Treasury, who has the lead in the negotiations, has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy, on which both the Export-Import Bank and AID are represented. Since the initiative is neither for export promotion nor economic development assistance, the Export-Import Bank and the Agency for International Development should not be asked to administer it.

-- The War Chest should be dismantled when sufficient negotiating progress has been achieved to restrict commercial use of tied aid credits with low grant elements.

The Administration's proposal is designed (1) to maximize negotiating leverage; (2) to avoid an open-ended entitlement program; and (3) to minimize the budgetary impact.

Leverage: To maximize negotiating leverage, we seek a War Chest of $300 million which would support up to $1 billion of exports. The War Chest would be targeted at those sectors and markets of particular importance to countries impeding negotiations.

The program should be aggressive and preemptive, not a program of merely matching tied aid credits. Other countries have matching programs which have not caused the initiators to agree to further discipline. Initiators retain the commercial advantage of being sought out first by the customer. If we only matched foreign offers, we would perpetuate rather than eliminate the practice, throwing good money after bad.

Consequently, we are proposing an offensive tied aid credit program. In particular, we seek the authority to initiate tied aid credits and if necessary to outbid selected foreign tied aid credit offers in deals which are of particular importance to countries blocking negotiations.

Cautionary Provisions: The proposed bill contains a clearly defined purpose which ties the War Chest to U.S. negotiating objectives rather than establishing a permanent subsidy and entitlement program. Treasury would control the fund. In operating the fund and selecting transactions to be targeted, however, we would rely heavily on the advice of the agencies in the National Advisory Council. In addition to a sunset provision of September 30, 1987, the President would have the

discretion to end the fund earlier if sufficient negotiating progress has been achieved.

Budgetary Impact: The budgetary impact would be limited by authorizing the use of grants rather than low interest loans (which would require higher appropriations). By appropriating the fund directly to the Department of the Treasury, we have tried to ensure that the fund does not taint the objectives of Eximbank and USAID nor divert funds from other important bilateral and multilateral assistance programs.

Conclusion

Tied aid credits and partially untied aid credits with low levels of concessionality are increasingly undermining the international system of trade and finance. Our War Chest initiative will greatly enhance our leverage to negotiate restrictions on the commercial uses of tied aid or partially untied aid credits. In order to implement the President's attack on unfair trade practices, we seek speedy enactment of our War Chest initiative.

This legislation purposely avoids setting up an unfair trade practice to match unfair trade practices of other countries. Such a course would ultimately injure all parties. Our effort is to decrease, not increase, international tensions in the field of trade finance. Our responsibilities lie in leveling the playing field for free and fair trade.

TREASURY NEWS

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

Statement by Secretary Baker
before the IMF Interim Committee
Sunday, October 6, 1985
(Morning Session)

Mr. Chairman, Mr. Managing Director, fellow Governors:

Last spring we had an important discussion of the policies which could help improve and sustain growth in all of our countries over the medium term. We made no specific commitments on measures which each of us would take, but our discussions helped to underscore the importance of joint efforts to reach our common objectives.

Since that meeting, the United States has given considerable attention to what we could do, in concert with other nations, to help improve the climate for growth and stability in the global economy.

Current Outlook

The global community has made considerable progress in the past few years in reducing inflation, restoring growth, and dealing with the initial financial strains of the debt problem.

The strong U.S. recovery that began in late 1982 has provided a strong impetus to trade and growth in other nations. Now the benefits of growth are spreading more widely, as economic policies which have been put in place over the past two to three years are bearing fruit.

This is true not only for other industrial nations, but for many developing countries as well. Real growth in the industrial world will remain above 3 percent this year, despite more moderate U.S. growth, due to stronger domestic demand outside of the United States. It is apparent that Japan and Germany, in particular, are relying less on export-led growth and are beginning to generate sustained domestic expansion. This should result in stronger industrial country growth next year in the 3-1/2 - 4 percent range.

OECD interest rates on average are only half as high as they were four years ago. Inflation rates in the major industrial countries are at their lowest levels in almost 20 years, reflecting a firm foundation for a medium-term expansion of noninflationary growth.

The industrial nations are thus providing a solid framework for growth in the developing nations. It is critical, however, that this growth be reinforced by firm resistance to rising protectionist pressures in order to ensure that LDC export markets remain open.

Domestic policies adopted by the capital-importing nations also have helped to dramatically reduce their current account deficits from $104 to $44 billion during the past three years, and to lay the basis for better growth over the medium term. Developing country exports have risen significantly and these nations are now growing at an aggregate rate of approximately 4 percent.

Next Steps

However, some major problems need to be addressed.

First, large trade and current account imbalances in the industrial world need to be corrected through the continued convergence of relative growth performance and exchange rates which more fully reflect underlying economic conditions. Measures to promote the achievement of these objectives were announced in New York on September 22 by the SDR currency countries.

For our part, the United States recognizes its responsibility in helping to assure a sound world economy. President Reagan is firmly committed to continue to reduce government expenditures and the federal budget deficit as a share of GNP; to implement fully the deficit reduction measures adopted by Congress, and to seek further reductions in order to reduce the deficit steadily in the years ahead. The President has in fact recently welcomed

proposed legislation that would establish a maximum allowable deficit ceiling that will reduce the deficit in equal steps to a balanced budget in 1991. He is also committed to put in place revenue-neutral tax reform that will encourage savings and efficiency. Furthermore, the President has reiterated our firm intention to resist protectionist measures; his recent rejection of import restraints on shoes bears witness to that conviction. However, our ability to avoid protectionist action depends critically on other nations opening their markets and eliminating unfair trading practices.

Further action is also needed to address the continuing debt problems of the developing nations. A number of the major debtor nations, despite considerable progress in their external accounts, have made less progress and experienced setbacks in their efforts to reduce domestic imbalances and inflation. Net commercial bank lending to the developing nations has also been declining during the past year and a half, in some cases to levels that are not adequate to support adjustment efforts.

Addressing these problems will require a strengthening of the case-by-case debt strategy to include:

o First and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies, supported by the international financial

institutions, to promote growth and balance of payments adjustment, and to reduce inflation.

- Second, a continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development banks (MDBs), both in support of the adoption by principal debtors of market-oriented policies for growth.

- Third, increased lending by the private banks in support of comprehensive economic adjustment programs.

I will elaborate on these thoughts in my address to the plenary session of the Annual Meetings.

Access

Permit me to turn now to the issue of the IMF's enlarged access policy. At the outset, let me state categorically that the United States is firmly committed to a strong and effective IMF. We are convinced that the IMF has played an essential role in dealing with LDC debt problems. Managing Director de Larosiere and his staff have done an outstanding job and deserve our deep gratitude. The IMF can and must remain at the center of international efforts to promote a sound world economy and stable international monetary system.

In recent years, the United States has supported a substantial increase in IMF resources. We have increased the U.S. commitments to the IMF by $8.5 billion as part of the overall expansion in IMF quotas and the General Arrangements to Borrow. The United States is the largest creditor to the Fund, with a reserve position totalling roughly $15 billion.

As part of the increase in IMF quotas, it was agreed that the policy of enlarged access was temporary. This Committee reaffirmed that view and has taken steps to gradually phase out enlarged access. On the basis of these understandings, and as part of our achieving for the first time in 15 years full funding for the MDBs, we committed to Congress that the enlarged access policy would eventually be eliminated.

The United States believes that this process should now be continued. While we recognize that continuing difficulties in a number of countries warrant an extension of enlarged access to Fund resources, we nevertheless believe that global circumstances permit a reduction of access limits in order that we will be seen as keeping our commitment to gradually phase out enlarged access.

A modest reduction of the current cumulative and annual limits would reaffirm and protect the revolving character of the Fund's resources, while ensuring that the Fund retains sufficient flexibility to meet the legitimate needs of its members. Similar reductions in access to the special facilities should also be implemented.

We remain open to consideration of precise proposals for reductions which other members may wish to suggest. However, we believe that it is critical to have an adequate reduction to maintain progress in gradually phasing out enlarged access. For our part, we must keep our commitment to Congress.

SDR Allocation

Turning to the question of a further allocation of Special Drawing Rights, the United States continues to believe that the basic requirement for an allocation has not been satisfied. A convincing case has not been made that there is a long-term global need to supplement reserves. Indeed, global reserves have increased at an average annual rate of about 11 percent since 1982. Non-oil developing country reserves have actually grown even faster. Other basic indicators, including the ratio of global reserves to imports and to external debt, have improved or remained relatively constant.

Thus, although some developing nations still face difficult adjustment and liquidity problems, the solution is not simply creating unconditional liquidity, only a small share of which would flow to the developing countries. The key is implementation of sound economic policies to promote growth and adjustment, supported by adequate commercial and official support and a favorable global economic environment.

Our discussion of the allocation question has also raised basic questions concerning the role of the SDR in a system that has evolved substantially since the SDR was created. These changes make it necessary to review the basic rationale for the SDR in today's system, and such a review will be undertaken by the IMF Executive Board. We should not prejudice that review. We are confident that there will be a comprehensive treatment of this issue in the Executive Board.

Conclusion

Achieving the objective of growth and adjustment supported by a favorable global environment and adequate financial flows will require determination and mutual effort. As indicated in the September 22 statement by the United States and other key industrial countries, we are committed to help create a global

environment which will provide a positive contribution to support the developing countries in their continuing adjustment efforts. We need to consider further how the other elements can be put in place, and I will elaborate on our views with respect to that in my speech at the Annual Meetings.

TREASURY NEWS

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

Statement by Secretary of the Treasury

James A. Baker, III

at the IMF Interim Committee Meeting

on Use of Trust Fund Reflows

October 6, 1985

Mr. Chairman:

Our discussion this morning confirms that in spite of a number of positive signs in the world economic outlook, the economic conditions in most of the poorest countries which rely primarily on concessional financing have not noticeably improved. The economic facts bear witness to this situation:

- Economic growth in the poorest countries in recent years has averaged 1.8 percent annually, and in some countries living standards are currently at the levels of 15 years ago.

- Their trade and current account deficits have not improved despite recovery in the world economy, and are not projected to improve over the next few years, despite frequent use of IMF financing by many of these countries which has led to prolonged use of IMF resources.

- Debt servicing difficulties in these countries have resulted in the imposition and intensification of trade and payments restrictions and in growing arrears on financial obligations, both domestic and external, including arrears to the IMF.

The IMF has provided balance of payments financing and advice in the context of economic programs for many of these countries in recent years. The World Bank has also assisted these countries, through both project, sectoral and structural adjustment lending. But, these programs have met with only limited success. In part this reflects inadequate action by the countries on the fundamental changes needed to create the conditions for sustained growth and development. However, adverse external developments and natural disasters have also played a role. Finally, the lack of success partially stems from the fact that the economic problems of the poorest countries require a comprehensive approach involving structural changes as well as sound macro-economic policies.

The Trust Fund reflows present us with an opportunity to utilize IMF resources in support of comprehensive economic programs. In order to do this most effectively, we believe that a new Trust Fund program should include the following basic elements:

- Eligibility would be based solely on low per capita income, perhaps the $550 level used by the World Bank to determine IDA participation. Actual use of the resources, however, would be based on an eligible country having a protracted balance of payments problem and being willing to implement a comprehensive growth-oriented economic program. Access to private markets could also be taken into account in determining actual use of the facility.

- Terms on loans would be concessional with low interest rates, substantial grace periods, and extended maturities.

- Conditions for participation would include a commitment to a multi-year growth-oriented economic program in which funds would be disbursed semi-annually based on satisfactory performance under the program. The programs themselves would be designed to support growth-oriented adjustment by removing structural impediments to production, saving, investment and non-inflationary growth.

To accomplish these objectives, each program should contain both macro-economic and structural components, tailored to meet the individual needs of each country. Macro-economic policies must continue to include sound monetary and fiscal policies to reduce domestic imbalances and inflation, as well as free market prices and exchange rates to encourage production and a more efficient use of resources. These measures can help assure a more stable domestic policy environment within which to pursue longer term restructuring and growth.

Structural and institutional measures should also be adopted to enhance the role of the private sector and to encourage private initiative in order to provide greater stimulus to domestic growth. These should include efforts to improve the efficiency of state-owned enterprises and privatize the public sector, reducing government intervention in the economy. Growth-oriented tax reform and interest rates designed to stimulate savings and domestic investment should also be adopted.

Finally, trade liberalization and measures to make foreign direct investment more attractive are critical to bring in the resources needed to boost both production and exports. Equity investment can be particularly valuable in supporting growth, since it is not debt

creating and can generate supportive additional investment which can have a compounding effect on growth and help to keep capital at home.

o Operations would be the responsibility of the IMF. It would be critical, however, to have close cooperation between the Fund and the Bank to achieve a consistent policy approach that would help these countries in creating the fundamental conditions for growth. We believe that in some cases this could best be accomplished by a joint approach by the Fund and the Bank. Such an approach could involve, on a case by case basis, joint Fund/Bank teams to assist the member in developing a broad range of policies that address both macroeconomic and structural problems in order to promote growth. Bilateral aid flows could be disbursed in close association with such joint programming.

The U.S. would be prepared to consider a bolder approach involving more intensive IMF and World Bank collaboration to provide a framework for development of unified comprehensive economic programs, and to catalyze additional financing in support of such programs. We believe that this approach would help insure that the institutions provide sound, mutually consistent advice on the full range of policies that can be used to attack poverty and promote growth. Moreover, it might generate substantial additional resources for these countries.

In fact, the United States (which supported African countries with $1.7 billion in bilateral aid in 1985) would be prepared to consider seeking additional resources in support of such a bolder approach if other donors were prepared to make equitable contributions.

We recognize that some of you may have reservations about such an approach, viewing it as complicated and difficult to implement. I would agree that this would not be an easy approach to put into place, but I believe that it offers substantial possibilities for helping the poorest countries -- and for strengthening the ties between the Fund and the Bank -- and that we should be prepared to explore it. I would welcome hearing the views of other members on such an approach, and hope that further consideration could be given to it in the months ahead.

Thank you Mr. Chairman.

TREASURY NEWS

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

STATEMENT OF THE HONORABLE JAMES A. BAKER
SECRETARY OF THE TREASURY
OF THE UNITED STATES

BEFORE THE
MEETING OF THE
DEVELOPMENT COMMITTEE OF THE IMF AND THE WORLD BANK

OCTOBER 7, 1985
SEOUL, KOREA

I welcome this opportunity to continue the dialogue we began at the last meeting of the Development Committee. At that time, we fostered a greater awareness of our shared interest and the responsibility to achieve sustained global growth. The thoughtful preparatory work of our Chairman, the Committee staff, and the Bank have provided a framework for further fruitful discussion today.

Policies for Growth

Let me restate my belief that pursuit of sound, growth-oriented economic policies remains the key to sustained world economic growth and development. As we discuss today's agenda, with its focus on official financing, we must remember that sound growth is simply not possible without a sound policy framework. Those countries that have been the most successful performers have pursued such policies. They have permitted their economies to respond flexibly to changes in world markets and their private sectors to operate freely.

It is my belief that two current policy initiatives -- a new GATT round of trade negotiations, and the Multilateral Investment Guarantee Agency, or MIGA -- hold great promise for enhancing future growth and deserve our enthusiastic support.

A free and open trading system is absolutely essential for sustained economic growth. A new GATT round of trade negotiations on goods and services is our best hope for halting protectionism and expanding trade opportunities for all of our countries.

President Reagan has recently restated the U.S. commitment to free trade and a new GATT round, but success in the negotiations depends on the widest possible participation by the developing countries. The protectionist pressures we are feeling in Washington means that the failure to launch a GATT round could increase the likelihood of protectionist legislation and could spill over into Congressional attitudes toward multilateral development bank funding, reducing and restricting U.S. participation. I therefore urge all of you to lend your active support to the new round.

There is a pressing need for developing countries to rely less on borrowing for external capital and more on equity flows, such as foreign direct investment. In addition to easing the long-term debt burden, these capital flows also convey the advantages of technology transfers and managerial know-how -- essential ingredients of economic development. The MIGA should play an important role in increasing this type of financing for developing countries, both through promotion of sound investment policies and direct insurance activities. I hope that all member governments of the Bank will support opening the MIGA for membership, and will take the steps necessary to join.

The Role of the Bank and Bank Lending

The United States views the primary role of the Bank as supporting policies which encourage economic growth and revitalization in its developing member countries. The Bank can achieve these goals primarily by maintaining an effective lending program in support of growth oriented policies through effective resource use and by catalyzing other capital flows.

The central focus of the Bank's lending program remains soundly based investment project lending, and we encourage all members to continue to take advantage of the Bank's expertise in this area. The Bank's introduction of structural and sector adjustment programs has proved an effective means to help members both sustain growth and implement policy changes over the medium-term.

With these policy instruments, the Bank supports members' efforts to achieve efficiency in their pricing policies, and in the management of their public sector and their trade, investment and tax regimes. We believe there is still considerable scope for expanding the use of structural and sector adjustment lending, particularly in those countries with major debt servicing difficulties.

If these countries are to achieve the maximum growth from increases in this type of lending, other elements must come into play in an integrated fashion: Industrial countries must sustain their growth and must keep their markets open; developing countries must undertake comprehensive adjustment programs; the IMF should continue to play its traditional role; and the commercial banks must be willing to provide sufficient net new resources. I will be providing more details on this in my plenary address tomorrow.

In today's environment of constrained external finance, the potential benefits of the Bank's catalytic role assume particular importance. The Bank's innovative efforts to expand co-financing with private sources of finance are to be commended and should be pursued vigorously to increase their effectiveness in attracting private finance.

We also believe the Bank should continue to enhance its role in the development of the private sector and where appropriate provide direct assistance to this private sector. In addition, the Bank should seek to assist, both in a technical and financial capacity, those countries which wish to divest some of their state-owned enterprises. The newly expanded IFC can play an important role in these efforts.

In April, we supported the Development Committee call for an expansion in Bank lending, provided the Bank maintains its lending standards and its prudent financial policies. This remains our position today. The actual resource requirements of the Bank will, of course, be dependent upon the extent to which borrowing countries are willing to work with the Bank in developing the policy programs to be supported by Bank lending.

As we all are aware, current Bank resources are sufficient to sustain lending of $13.5 to $14 billion per year, compared to the 1985 lending of $11.4 billion. If the demand for quality lending were to increase, the IBRD should be encouraged to respond effectively and resources should be made available to enable it to do so. We intend to keep the capital needs of the Bank under close review and we will carefully assess the adequacy of the Bank's resource base as the demand for quality lending increases.

The Poorest Countries

Some of the Bank's poorest members, especially those in Sub-Saharan Africa, face severe economic problems. We applaud the Bank's special efforts to support structural adjustment by these countries. The United States is itself providing growing policy-linked bilateral aid -- a total of $1.7 billion in 1985 -- at times in close cooperation with the Bank's Special Facility for Sub-Saharan Africa, as are other donors.

However, much more needs to be done, especially in better coordinating donors' efforts with the economic programs associated with IMF and with World Bank lending. As I indicated in the Interim Committee discussions yesterday, I believe the IMF Trust Fund reflows offer an opportunity to improve coordination and provide a new significant stimulus for growth.

The United States is also prepared to consider a broader approach to encompass joint IMF and World Bank programs and financing to foster adjustment and catalyze additional sources of financing for these poorest countries.

Task Force on Concessional Flows

We also welcome the work of the Task Force on Concessional Flows. It charges donors and recipients to ascertain that aid is used effectively in promoting economic growth, in promoting structural reform and in promoting development. The Task Force recognizes the severe constraints affecting the volume of aid flows and clearly, in such an environment, only programs which actively and effectively support appropriate development policies deserve continued support.

Conclusions

Further action is needed on the part of both developed and developing countries to promote sustained economic growth, to maintain necessary flows of capital, and to preserve and expand open markets. The United States remains committed to this process, and to institutions like the World Bank that have an essential role in promoting these goals among the developing countries.

I look forward to hearing your views on these important issues, and to working with you to resolve our problems.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 7, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 7,012 million of 13-week bills and for $ 7,004 million of 26-week bills, both to be issued on October 10, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 9, 1986			:	26-week bills maturing April 10, 1986		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.10% a/	7.33%	98.205	:	7.29%	7.67%	96.315
High	7.14%	7.37%	98.195	:	7.33%	7.72%	96.294
Average	7.14%	7.37%	98.195	:	7.32%	7.71%	96.299

a/ Excepting 1 tender of $1,025,000.

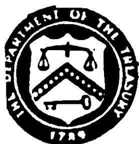
Tenders at the high discount rate for the 13-week bills were allotted 83%.
Tenders at the high discount rate for the 26-week bills were allotted 34%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 86,300	$ 56,300	:	$ 73,615	$ 43,615
New York	16,105,065	5,870,375	:	16,257,965	5,827,305
Philadelphia	32,710	32,710	:	27,760	27,760
Cleveland	56,685	56,685	:	35,715	35,715
Richmond	46,320	46,320	:	62,160	47,160
Atlanta	75,210	64,975	:	75,305	57,305
Chicago	1,326,295	248,775	:	1,449,265	181,285
St. Louis	91,815	51,815	:	92,870	52,870
Minneapolis	19,195	19,195	:	17,580	17,580
Kansas City	74,645	69,645	:	56,570	51,570
Dallas	45,575	39,725	:	36,825	26,825
San Francisco	1,227,330	96,160	:	1,317,915	174,955
Treasury	359,335	359,335	:	460,345	460,345
TOTALS	$19,546,480	$7,012,015	:	$19,963,890	$7,004,290
Type					
Competitive	$16,247,065	$3,712,600	:	$16,812,275	$3,852,675
Noncompetitive	1,343,680	1,343,680	:	1,156,015	1,156,015
Subtotal, Public	$17,590,745	$5,056,280	:	$17,968,290	$5,008,690
Federal Reserve	1,601,435	1,601,435	:	1,600,000	1,600,000
Foreign Official Institutions	354,300	354,300	:	395,600	395,600
TOTALS	$19,546,480	$7,012,015	:	$19,963,890	$7,004,290

1/ Equivalent coupon-issue yield.

R-299



THE SECRETARY OF THE TREASURY
WASHINGTON

October 7, 1985

Dear Mr. Majority Leader:

In letters dated September 25, October 1, and October 3, Secretary Baker informed you of our projection that Treasury's cash balance would be virtually exhausted unless either the Congress acts to increase the debt limit by October 7, or we take unprecedented and questionable action to use Federal Financing Bank authority. This letter is to inform you of our latest cash projection -- and to repeat our request for Congressional action today.

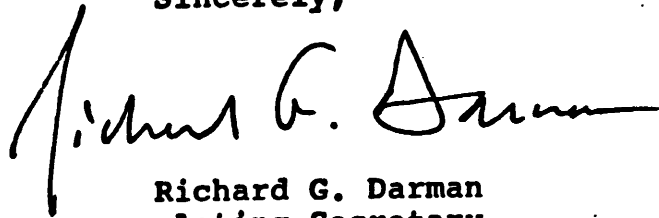
As you know, we have already had to fail to meet certain requirements for the full investment of several trust funds -- costing them approximately $8 million per day. As of this morning, we estimated that cash balances may be zero or negative tomorrow, and will certainly be negative by Wednesday.

When we formally determine that the next day's balance is to be negative, we will need to notify the Federal Reserve. It is my understanding that, upon such notification, the Federal Reserve will then have to notify the banking system _not_ to honor _any_ Government checks or electronic fund transfers. (It is not appropriate or administratively practicable to attempt to distinguish among classes of payment obligations -- favoring some at the expense of others.) Accordingly, all those with federal payment claims -- whether social security recipients or defense contractors or holders of Government securities with interest payments due -- would then be unable to have those claims honored.

We continue to hope that the Congress will act promptly to avoid such an unprecedented failure of the U.S. Government to honor its obligations. If the Congress acts today, we would inform the financial markets by noon tomorrow of our intention to offer Treasury bills for sale on Wednesday. In anticipation of this financing, we and the Federal Reserve would then be able to manage payments on Tuesday so as to avoid a default.

In sum, unless a debt limit is passed promptly by the Congress or we take the unprecedented and questionable measure of using Federal Financing Bank borrowing authority, the United States would be in the position of defaulting on its obligations for the first time in history.

Sincerely,



Richard G. Darman
Acting Secretary

The Honorable Robert Dole
United States Senate
Washington, D. C. 20510

IN ADVANCE OF PRINTED COPY

DEPARTMENT OF THE TREASURY
Office of Foreign Assets Control
31 C.F.R. Part 545
South African Transactions Regulations

AGENCY: Office of Foreign Assets Control

ACTION: Final Rule

SUMMARY: On October 1, 1985, the President issued Executive Order No. 12535, imposing a ban on the importation of Krugerrands into the United States. In implementation of that order, the Office of Foreign Assets Control is issuing the South African Transactions Regulations, prohibiting the importation of Krugerrands into the United States.

EFFECTIVE DATE: 12:01 a.m. Eastern Daylight Time, October 11, 1985.

FOR FURTHER INFORMATION CONTACT: Marilyn L. Muench, Chief Counsel, Office of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220; 202/376-0408.

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

applicable. Because no notice of proposed rulemaking is required for this rule, the Regulatory Flexibility Act, 5 U.S.C. 601, et seq., does not apply. Because the regulations are issued with respect to a foreign affairs function of the United States, they are not subject to Executive Order 12291 of February 17, 1981, dealing with Federal Regulations. The information collection requests contained in this document are being submitted to the Office of Management and Budget under the Paperwork Reduction Act of 1980, 44 U.S.C. 3501 et seq. Notice of OMB action on these requests will be published in the Federal Register.

New Part 545 is added as follows:

DEPARTMENT OF THE TREASURY
Office of Foreign Assets Control
31 CFR Part 545
South African Transactions Regulations

Subpart A -- Relation of this Part to Other Laws and Regulations

Section 545.101 Relation of this part to other laws and regulations.

Subpart B -- Prohibitions

Section 545.201 Prohibition on the importation of Krugerrands.
Section 545.203 Effective date.
Section 545.204 Evasions.

Subpart C -- General Definitions

Section 545.301 Krugerrands.
Section 545.302 United States.

Subpart D -- Interpretations

Section 545.401 Reference to amended sections.
Section 545.402 Effect of amendment of sections of this chapter or of other orders, etc.
Section 545.403 Krugerrand jewelry.

Subpart E -- Licenses, Authorizations and Statements of Licensing Policy

Section 545.501 Effect of subsequent license or authorization.
Section 545.502 Exclusion from licenses and authorizations.

Subpart F -- Reports

Section 545.601 Required records.
Section 545.602 Reports to be furnished on demand.

Subpart G -- Penalties

Section 545.701 Penalties.

Subpart H -- Procedures

Section 545.801 Licensing.
Section 545.802 Decisions.
Section 545.803 Amendment, modification, or revocation.
Section 545.804 Rulemaking.
Section 545.805 Delegation by the Secretary of the Treasury.
Section 545.806 Rules governing availability of information.

Subpart A -- Relation of this Part to Other Laws and Regulations

Section 545.101 Relation of this part to other laws and regulations.

(a) This part is independent of the other parts of this chapter and all other provisions of law. No license or authorization under another part of this chapter or any other provision of law authorizes any transaction prohibited by this part.

(b) No license or authorization under this part authorizes any transaction prohibited by one of the other parts of this chapter or any other provision of law, or relieves the parties involved from complying with any other applicable laws or regulations.

Subpart B -- Prohibitions

Section 545.201 Prohibition on the importation of Krugerrands.

Except as authorized under this part, the importation into the United States of South African Krugerrands is prohibited.

Section 545.203 Effective date.

(a) The effective date of the prohibition in section 545.201 shall be 12:01 a.m. Eastern Daylight Time, October 11, 1985.

Section 545.204 Evasions.

Any transaction for the purpose of, or which has the effect of, evading any of the prohibitions in this part is prohibited.

Subpart C -- General Definitions

Section 545.301 <u>Krugerrands</u>.

The term "Krugerrands" includes Krugerrands of all denominations and sizes, and Krugerrands that have been modified, as by addition of a clasp or loop, into items that can be worn as jewelry.

Section 545.302 <u>United States</u>.

The term "United States" means the United States and all territories under the jurisdiction thereof, including the Trust Territory of the Pacific Islands.

Subpart D -- Interpretations

Section 545.401 <u>Reference to amended sections</u>.

Reference to any section of this chapter or to any regulation, ruling, order, instruction, direction or license issued pursuant to this chapter shall be deemed to refer to the same as currently amended unless otherwise so specified.

Section 545.402 Effect of amendment of sections of this chapter or of other orders, etc.

Any modification of this chapter or of any regulation, ruling, order, instruction, direction or license issued by the Secretary of the Treasury pursuant to Executive Order No. 12535 shall not, unless otherwise specifically provided, be deemed to affect any act performed or omitted, or any civil or criminal proceeding commenced, prior to such modification, and all penalties, forfeitures, and liabilities under any such provision shall continue and may be enforced as if such modification had not been made.

Section 545.403 Krugerrand jewelry.

Section 545.201 prohibits the importation into the United States of Krugerrands that have been modified, as by the addition of a clasp or loop, into items that can be worn as jewelry. For example, importation of a necklace consisting of a Krugerrand mounted on a chain would be prohibited. Section 545.201 does not prohibit the reimportation into the United States of Krugerrand jewelry which was originally imported into the United States prior to October 11, 1985.

Subpart E -- Licenses, Authorizations and Statements of Licensing Policy

Section 545.501 Effect of subsequent license or authorization.

No license or other authorization contained in this chapter or otherwise issued by or under the authority of the Secretary of the Treasury pursuant to Executive Order 12535 shall be deemed to authorize or validate any transaction effected prior to the issuance thereof, unless such license or other authorization specifically so provides.

Section 545.502 Exclusion from licenses and authorizations.

The Secretary of the Treasury reserves the right to exclude any person or property from the operation of any license or to restrict the applicability thereof to any person or property. Such action shall be binding upon all persons receiving actual or constructive notice thereof.

Subpart F -- Reports

Section 545.601 Required records.

Every person engaging in any transaction subject to this part shall keep a full and accurate record of each transaction in which he engages, including any transaction effected pursuant to license or otherwise, and such records shall be available for examination for at least two years after the date of such transaction.

Section 545.602 Reports to be furnished on demand.

Every person is required to furnish under oath, in the form or reports or otherwise, at any time as may be required, complete information relative to any transaction subject to this part, regardless of whether such transaction is effected pursuant to license or otherwise. Such reports may be required to include the production of any books of account, contracts, letters, and other papers connected with any transaction in the custody or control of the persons required to make such reports. Reports with respect to transactions may be required either before or after such transactions are completed. The Secretary of the Treasury may, through any person or agency, conduct investigations, hold

hearings, administer oaths, examine witnesses, receive evidence, take depositions, and require by subpoena the attendance and testimony of witnesses and the production of all books, papers, and documents relating to any matter under investigation.

Subpart G -- Penalties

Section 545.701 Penalties.

(a) Attention is directed to section 206 of the International Emergency Economic Powers Act, 50 U.S.C. 1705, which provides in part:

> A civil penalty of not to exceed $10,000 may be imposed on any person who violates any license, order, or regulation issued under this title.
>
> Whoever willfully violates any license, order, or regulation issued under this title shall, upon conviction, be fined not more than $50,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

This section of the International Emergency Economic Powers Act is applicable to violations of any provision of this part and to any license, ruling, regulation, order, direction, or instruction issued hereunder.

(b) Attention is also directed to 18 U.S.C. 1001, which provides:

> Whoever, in any matter within the jurisdiction of any department or agency of the the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representation or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than five years, or both.

Subpart H -- Procedures

Section 545.801 Licensing.

(a) General licenses. [Reserved]

(b) Specific licenses. Transactions prohibited under subpart B may be effected only under specific license.

(1) The specific licensing activities of the Office of Foreign Assets Control are performed by its Washington Office and by the Foreign Assets Control Division of the Federal Reserve Bank of New York.

(2) Applications for specific licenses. Applications for specific licenses to engage in any transaction prohibited under this part are to be filed in duplicate with the Federal Reserve Bank of New York, Foreign Assets Control Division, 33 Liberty Street, New York, N.Y. 10045. Any person having an interest in a transaction or proposed transaction may file an application for a license authorizing such transaction, and there is no requirement that any other person having an interest in such transaction shall or should join in making or filing such application.

(3) Information to be supplied. The applicant must supply all information specified by the respective forms and instructions. Such documents as may be relevant shall be attached to each application except that documents previously filed with the Office of Foreign

Assets Control may, where appropriate, be incorporated by reference. Applicants may be required to furnish such further information as is deemed necessary to a proper determination by the Office of Foreign Assets Control. Failure to furnish necessary information will not be excused because of any provision of South African law. If an applicant or other party in interest desires to present additional information or discuss or argue the application, he may do so at any time before or after decision. Arrangements for oral presentation should be made with the Office of Foreign Assets Control.

(4) Effect of denial. The denial of a license does not preclude the reopening of an application or the filing of a further application. The applicant or any other party in interest may at any time request explanation of the reasons for a denial by correspondence or personal interview.

(5) Reports under specific licenses. As a condition of the issuance of any license, the licensee may be required to file reports with respect to the transaction covered by the license, in such form and at such times and places as may be prescribed in the license or otherwise.

(6) Issuance of license. Licenses will be issued by the Office of Foreign Assets Control acting on behalf of the Secretary of the Treasury or by the Federal Reserve Bank of New York, acting in accordance with such regulations, rulings, and instructions as the Secretary of the Treasury or the Office of Foreign Assets Control may from time to time prescribe, or licenses may be issued by the Secretary of the Treasury acting directly or through a designated person, agency, or instrumentality.

Section 540.802 Decisions.

The Office of Foreign Assets Control or the Federal Reserve Bank of New York will advise each applicant of the decision respecting filed applications. The decision of the Office of Foreign Assets Control with respect to an application shall constitute a final agency action.

Section 545.803 Amendment, modification, or revocation.

The provisions of this part and any rulings, licenses, authorizations, instructions, orders, or forms issued hereunder may be amended, modified, or revoked at any time.

Section 545.804 Rulemaking.

(a) All rules and other public documents are issued by the Secretary of the Treasury upon recommendation of the Director of the Office of Foreign Assets Control. Except to the extent that there is involved any military, naval, or foreign affairs function of the United States or any matter relating to the agency management or personnel or to public property, loans, grants, benefits, or contracts, and except when interpretive rules, general statements of policy, or rules of agency organization, practice, or procedure are involved, or when notice and public procedure are impracticable, unnecessary, or contrary to the public interest, interested persons will be afforded an opportunity to participate in rulemaking through the submission of written data, views, or arguments, with oral presentation in the discretion of the Director. In general, rulemaking by the Office of Foreign Assets Control involves foreign affairs functions of the United States. Wherever possible, however, it is the practice to hold informal consultations with interested groups or persons before the issuance of any rule or other public document.

(b) Any interested person may petition the Director of the Office of Foreign Assets Control in writing for the issuance, amendment or revocation of any rule.

Section 545.805 Delegation by the Secretary of the Treasury.

Any action which the Secretary of the Treasury is authorized to take pursuant to Executive Order 12535 may be taken by the Director of the Office of Foreign Assets Control, or by any other person to whom the Secretary of the Treasury has delegated authority so to act.

Section 545.806 Rules governing availability of information.

(a) The records of the Office of Foreign Assets Control which are required by 5 U.S.C. 552 to be made available to the public shall be made available in accordance with the definitions, procedures, payment of fees, and other provisions of the regulations on the disclosure of records of the Office of the Secretary

and of other bureaus and offices of the Department issued under 5 U.S.C. 552 and published as part 1 of this Title 31 of the Code of Federal Regulations.

(b) Any form issued for use in connection with this part may be obtained in person from or by writing to the Office of Foreign Assets Control, Treasury Department, Washington, D.C. 20220, or the Foreign Assets Control Division, Federal Reserve Bank of New York, 33 Liberty Street, New York, N.Y. 10045.

Subpart I -- Miscellaneous

Dated: OCT 0 9 1985

Dennis M. O'Connell
Director
Office of Foreign Assets Control

Approved: OCT - 9 1985

David D. Queen
Acting Assistant Secretary
Enforcement & Operations

Filed: OCT. 10, 1985

Published: OCT. 15, 1985

TREASURY NEWS

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

October 7, 1985

Margaret D. Tutwiler
Assistant Secretary of Treasury
for Public Affairs and Public Liaison

Margaret D. Tutwiler was confirmed as Assistant Secretary of the Treasury for Public Affairs and Public Liaison on May 15, 1985. Miss Tutwiler was Acting Assistant Secretary in that position since February 4, 1985.

The responsibilities of her office include ensuring that constituency groups are represented in Treasury policy making and that Department decisions are communicated to the public and the media.

Before coming to Treasury, Miss Tutwiler served as a member of President Reagan's senior staff at the White House. From 1984 to 1985, she was Deputy Assistant to the President for Political Affairs. Miss Tutwiler held the position of Special Assistant to the President and Executive Assistant to the Chief of Staff from 1980 to 1984.

A native of Birmingham, Alabama, Miss Tutwiler graduated from the University of Alabama in 1973. She worked for the Alabama Republican Party in 1974 prior to serving in President Gerald Ford's re-election campaign from 1975-1976.

Miss Tutwiler then became Public Affairs Representative for the National Association of Manufacturers in Alabama and Mississippi. From 1978 to 1980, she was Director of Scheduling for Ambassador George Bush's Presidential and Vice Presidential campaigns.

In July of 1985, Miss Tutwiler was a member of the official U.S. delegation to the 1985 World Conference to Review and Appraise the Achievements of the United Nations Decade for Women in Nairobi, Kenya.

B-300

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
EXPECTED AT 10:00 A.M. EDT
Tuesday, October 8, 1985

STATEMENT OF
THE HONORABLE MANUEL H. JOHNSON
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE
JOINT ECONOMIC SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

Mr. Chairman and members of the Subcommittee.

It is a pleasure to be with you today to discuss a proposal that would amend the Constitution to require a balanced budget.

The Need For An Amendment

The President and the Administration endorse strongly enactment of a balanced budget amendment to help restore fiscal responsibility to the Federal Government.

The President has reconfirmed repeatedly his strong support for a constitutional amendment mandating a balanced Federal budget. In his last State of the Union Message he requested that the Congress enact such a measure. The last time a vote was taken in the Congress in 1982, a balanced budget amendment was approved by more than two-thirds of the Senate and by more than a majority but less than the necessary two-thirds of the House.

The public is overwhelmingly behind the concept of a balanced budget. A survey last year revealed that nearly 85 percent of those polled favored a balanced budget amendment. Thirty-two State legislatures have approved resolutions calling for a Constitutional Convention to consider the issue, and there are several more States, particularly Michigan, Connecticut and Ohio where final action is possible in the near term.

It is clear to the President and to the public that something must be done to restrain the upward spiral in Federal spending. The Federal Government continues to absorb too great a share of GNP. Between fiscal year 1960 and 1985, the growth of Federal spending was much faster than the growth of the economy. As a result, the Federal Government share of total output jumped from 18.5 percent in 1960 to about 25 percent by 1985.

The growth in government spending has been accompanied by large increases in the Federal tax burden. By 1981, corporate taxes had more than doubled since the mid-1960's, leaving real after-tax, after inflation profits below levels reached some fifteen years ago. In spite of tax reductions, personal income taxes as a percent of personal income rose from about 10 percent in 1975 to 11.5 percent by 1980 and had been projected to rise to over 15 percent by 1985 without any major tax reduction. If we take account of social security tax increases, the average tax rates rose from 12.7 percent to 14.5 percent during this period and would have increased to nearly 19 percent by 1985. Marginal tax rates rose even faster to sharply higher levels.

Throughout the economy, the rising tax burden seriously eroded incentives to work, save and invest, and contributed to the economic decline that we experienced until recently -- high inflation and unemployment, and slow growth which, in turn, have contributed to higher budget deficits.

Even with the tax reductions in 1981, overall tax receipts of the Federal Government rose more than $380 billion from FY 1977 to FY 1985 and still we accumulated deficits of over $1 trillion.

Mr. Chairman, the only conclusion is that Federal Government spending continues to grow out of control. Some critics are quick to put the blame for large deficits on the Administration's tax reductions and defense spending increases. This is just not correct, however. The revenue estimates in the August 30 Mid-Session Review of the Fiscal Year 1986 Budget show that under Administration policies the government's tax claim on income in the 1985-1990 period would be between 18.8 percent and 19.4 percent of GNP -- about a full percentage point or more above the nearly 18.1 percent share of the 1946-1970 period. The national defense share of the GNP will rise only to 7.6 percent of GNP by 1990, well below the 9.7 percent share during the 1946-1970 period.

The driving force behind the rise in the budget deficit is not the Administration's tax policy but the combination of the past recession and the growth of non-defense spending. In spite of efforts by the President and some thoughtful members of the Congress to trim non-defense spending, it continues to grow significantly.

If the Federal Government did not have such a dismal record on spending control, I might be more optimistic that we could move toward a balanced budget. Indeed, favorable Congressional action on the spending reduction targets included in the first Budget Resolution for 1986 might change the public's impression that constitutional restrictions on budget planning are absolutely necessary. However, a demonstration that the current budget structure is capable of dealing effectively with the spending problem is yet to be seen.

Congressional Budget Reform

I would feel much more confident that the political process was conducive to dealing head on with the structural budget problem if we had a balanced budget requirement. Over the years the Congress has tried to respond to concerns about government spending, deficits and budgetary control. The most recent attempt at reform was the Congressional Budget and Impoundment Control Act of 1974 which was intended to bring about Congressional control over the budget process. Unfortunately the reforms implemented by this Act have not been successful in constraining Federal spending.

Congress has made other attempts to bring about fiscal responsibility. In 1978, for instance, the Congress approved a statute requiring a balanced budget beginning in 1981. It is quite evident that this statutory approach for requiring budget balance has not been successful. Indeed, it was ignored!

Obviously, something is amiss in the budget making process if the Congress, even after enacting legislation requiring budgetary discipline, frequently fails to live within its means. It has not always been this way. For most of our history through the 1920's, Federal spending ranged between 1 and 3 percent of national output; spending for past or current wars accounted for the major variations in this share. During most peacetime years in this period the Federal budget was in surplus. Since 1930, a period spanning more than 50 years, there has been a budget surplus on only eight occasions and half of those were shortly after World War II.

Expansion of Government

The pressure for ever-larger government is intense and very hard to resist. Those who gain directly or indirectly from Federal transfer or spending programs perceive the benefits of such programs very clearly. However, the tax cost to benefit recipients seems low because taxes to pay for special programs are distributed throughout the population. Therefore, a net transfer of wealth from taxpayers to program beneficiaries takes place. It is only when we total up the bill, and begin to experience the adverse consequences of overspending and overtaxing on economic growth, employment, living standards and

interest rates, that the costs become evident. Transfer recipients have become powerful organized lobbyists because the benefits they receive are highly concentrated and quite obvious. Unfortunately, taxpayers in general are initially not organized as effectively because the additional taxes necessary to pay for these transfer payments are diffused among all taxpayers. Hence for a while, the burden on any one taxpayer seems modest, until spending becomes inflationary and incomes are forced by higher prices into tax brackets once reserved for the very rich.

In addition, Federal spending has increased rapidly over the years because of the emphasis on Keynesian countercyclical stabilization policies. In the past, the government has enacted spending programs intended to help spend the economy out of a recession. Although these programs, such as public service employment, were to be temporary, in fact some turned out to be permanent. Thus, instead of being phased out after economic recovery was underway, spending continued indefinitely, expanding the government expenditure base.

On the revenue side, for too long it had been easy to raise the tax burden, primarily through inflation and bracket creep. Revenue increases have been largely automatic, seldom requiring legislation.

Prior to enactment of the Economic Recovery Tax Act of 1981, inflation, a progressive tax code, and outmoded depreciation rules had combined to raise revenues in a particularly damaging fashion, striking directly at the rewards to saving, work effort and investment. As inflation drove taxpayers into higher tax brackets, the rate of return on additional saving and work effort fell. As inflation crippled the depreciation writeoffs, the after-tax cost of plant and equipment rose and the rate of return fell. The reduced supplies of labor and capital retarded economic growth.

Reduced growth has cost the government a large portion of the revenues it might otherwise have expected, and has required higher outlays on income support programs. The government has had more receipts, but it has collected them by driving tax rates higher on a smaller economy, and has had to spend them relieving the suffering that slow growth has caused.

Unfortunately, some individuals have not learned a lesson from our past mistakes. They continue to argue for increasing tax rates in order to balance the budget. This approach has not worked in the past and it will not be successful in the future. Economic growth and restraint on the growth of Federal spending are the keys to the deficit problem.

This is why we need a balanced budget amendment. Such an amendment will restrain the size of government as well as reduce the frequency and size of budget deficits, while maintaining sufficient flexibility to be workable and to function in a time of crisis. All these considerations prompted the Administration to support the adoption of House and Senate Joint Resolutions during the past several Congresses calling for a balanced budget and to restate its support for similar resolutions now pending in the current 99th Congress.

In addition, President Reagan has called for passage of a constitutional amendment as well as S. 43, Senator Mattingly's bill, that would permit the Chief Executive to veto individual items in appropriation bills without having to veto the entire bill. Regretably, last July the Senate refused three times to end a filibuster by opponents of Senator Mattingly's bill, but we continue to support passage of a line item veto authority. Forty-three of our 50 States grant their governors this right that works as a powerful tool against wasteful or extravagant spending. This tool does not work automatically, of course, but put in the hands of a President that is intent on slowing the growth of spending it can be very effective.

A Summary of Current Amendments

Currently, S.J. Res. 13 is pending before the Senate and would amend the Constitution to require a balanced budget. I am sure that the Subcommittee is familiar with this Resolution, which is virtually identical to those introduced during previous sessions of the Congress. Therefore, I will only briefly summarize what the amendment proposed in the Senate Resolution, would do.

Section 1 would restrain deficits. It would require Congress to adopt a budget for each year in which planned Federal spending could not exceed receipts, except in the case of a super-majority vote. In other words, the First Congressional Resolution on the Budget would be required to plan outlays that equal receipts including so-called off-budget spending. Should Congress decide to plan a deficit, it would have to approve a specific dollar amount of deficit spending by a three-fifths vote of the entire membership of each House of Congress -- that is, at least 60 of the 100 Senators and 261 of the 435 Representatives. The amendment charges the Congress and the President with ensuring that actual outlays (including off-budget) do not exceed the amount of outlays adopted in the budget statement, unless approved by a three-fifths vote. Language has been included in this Section to clarify an ambiguity in an earlier version of the amendment concerning the extent of the President's powers to ensure that actual outlays do not exceed stated outlays.

Section 2 would limit the growth of government. It would limit receipts so they could not increase at a rate faster than

the growth of some measure of the previous year's income. That growth limitation could be overridden only by a bill directed solely to increasing taxes which was approved by a constitutional majority (50 percent of the total membership plus one) of both Houses of Congress and signed by the President.

Section 3 would require the President, prior to each fiscal year, to transmit to the Congress a proposed statement of receipts and outlays for that fiscal year consistent with the provisions of the article amending the Constitution.

Section 4 would allow Congress to waive the amendment for any fiscal year in which a declaration of war was in effect.

Section 5 defines the terms "outlays" to include all outlays of the United States except those for repayment of debt principal, and "receipts" to include all receipts of the United States except those derived from borrowing. These definitions would apply when Congress adopts the annual statement as required by Section 1 of the amendment.

Section 6 provides and makes clear that the Congress has the legislative authority to implement the powers and responsibilities of the amendment.

Section 7 states that the provisions of the amendment shall be effective as of the second fiscal year beginning after the amendment is ratified.

How the Amendment Would Work

Section 1 would not require a balanced budget statement. It simply sets more stringent voting requirements for an unbalanced budget. Congress can adopt an unbalanced budget statement if three-fifths of the entire membership of each House vote for it. Also, the Congress is not restricted in amending the budget statement during the fiscal year, as long as the voting requirements--three fifths of the entire membership of each House for a deficit, and an ordinary majority for a balanced budget--are met.

Thus, the flexibility of the budget process would be maintained. If for reasons of great national concern it were necessary for Federal spending to exceed revenues, Congress could vote to allow this to happen. However, by requiring Congress to otherwise "adopt a statement of receipts and outlays for that year in which total outlays are no greater than total receipts," the amendment would establish a balanced budget as the budgetary "norm," which would be passed by a normal majority vote. An institutional bias in favor of deficit spending would thereby be corrected.

The Senate Joint Resolution also provides for deficits in wartime, permitting the Congress to waive its requirements for any year in which a declaration of war is in effect. A wide variety of events, not necessarily entailing a declaration of war may, however, pose threats to national security. The Administration has, therefore, in the past encouraged the Congress to amend the current language of the amendment to allow a broader range of events -- unforeseen events posing an imminent threat to national security -- to qualify for a waiver.

Section 2 would limit the growth of Federal revenues to the rate of growth of some measure of income unless Congress, by a majority vote of the membership of each chamber, decided to raise taxes to a higher level. For example, if the GNP rose by ten percent in the previous calendar year, tax receipts could not rise by more than ten percent in the succeeding fiscal year unless a majority of all the members of Congress explicitly voted otherwise.

This procedure contrasts markedly with the operation of the tax system in recent years, during which taxes, particularly the individual income tax, have grown more rapidly than GNP even without a Congressional vote. For whenever inflation reached a level of, say, 10 percent, the government collected roughly 15 percent more from personal incomes due to "bracket creep," and took in further revenue by causing depreciation to be understated. Indeed, the government profited substantially from inflation.

To some extent, this problem has been addressed by the indexation and Accelerated Cost Recovery System provisions of the Economic Recovery Tax Act of 1981. The indexation proposals in the Treasury Department's Tax reform package sent to the Congress earlier this year would help address further this problem. However, Section 2 would extend this safeguard against unlegislated tax increases to other forms of taxation as well. For example, it would prevent backet creep due to real income gains. There is no justification for the government's share of GNP to increase automatically as GNP grows, whether the growth is real or due to inflation. Just because the output of the economy is expanding is no reason for the government to expand faster than the economy's output. On the other hand, there is every reason to encourage the government to pursue sound policies to induce economic growth, thereby making additional government spending as well as private spending possible.

The amendment would strengthen further the principle of accountability by requiring Congress to vote on a specific bill to increase taxes instead of adding a tax increase as an amendment to another bill, as is often done now.

The Founding Fathers intended that the people would never be taxed without their express consent, which is why they required that all revenue bills originate in the House -- at the time the only chamber directly elected by the people. The Founding Fathers did not anticipate that a progressive income tax, coupled with inflation, would negate this principle. This amendment would restore the clear intent of the creators of the Constitution.

Section 5 of the pending Senate Joint Resolution addresses the problem of so-called "off-budget expenditures" -- expenditures that are made by the Federal Government and thereby add to the total public debt burden, but are not included in the regular budget.

In 1973, when this device was first adopted, off-budget agencies spent less than 0.1 billion. Such spending peaked at $21 billion in 1981 and has declined every year since then, falling to $10 billion in 1984. Off-budget outlays are estimated to have been $10 billion in the fiscal year just concluded but the President's 1986 budget reduces such spending sharply after 1985 and the Mid-Session Review shows that in 1988 and later years off-budget spending would become sizable negative amounts. Both for the sake of fairness and accurate economic accounting, this amount of spending should be added to the deficit. Section 5 of the proposed article would require this type of treatment, as would, incidentally, legislation proposed by the Administration. In fact, the 1986 budget treats the entities that are off-budget under current law as though they were on- budget. If this proposed change is approved by the Congress -- the Congress has not yet acted upon the Administration's proposed legislation but the Senate and the House have tacitly agreed to the proposal in principle by using in the Budget Resolution total budget outlays, including off-budget spending -- or if the constitutional amendment is enacted and approved, Federal Government expenditures would no longer be divided into on- and off-budget outlays. The term "outlays" would mean just that-- <u>all</u> government obligations of taxpayer funds, with the single exception of repayment of debt principal.

Workability of the Amendment

Critics of the balanced budget/tax limitation amendment object to it on two principal grounds: that the amendment would be such an "iron commandment" that it might force the United States into contractionary economic policies or that it would be so ineffective as to be constantly circumvented.

Those who argue that the amendment is a "formula for economic decline" claim that the amendment would force drastic spending cuts during recessions. In fact, the amendment would do no such thing. Unanticipated revenue declines would not require immediate offsets in spending. The balanced budget rule would

probably lead to an actual budget deficit when the economy is weaker than expected in the official Administration economic forecast and an actual budget surplus when the economy is stronger than expected.

It should be emphasized, however, that spending restraint _per se_ does not necessarily constrain the economy. This is an old Keynesian notion that does not take into consideration other policy mechanisms that also have an impact on the economy. Thus, even if spending is restrained, aggregate demand would not fall if monetary policy is not tightened. If monetary policy is tightened, maintaining government spending might not prevent aggregate demand and eventually the economy from slowing. It is the policy mix that is important for assuring steady, sustainable economic growth.

In any event, Congress could continue to enact unbalanced budgets during an economic downturn if three-fifths of the members of both Houses agreed. While this standard is stringent -- as it should be -- it is by no means insuperable. If an economic crisis urgently demanded additional Federal spending, the mechanism for permitting it would be firmly in place.

Moreover, unforeseen spending needs could be accommodated in advance through the establishment of a reserve or contingency fund to cover outlays that exceeded their expected level. During the past two recessions, the increase in actual 1980 and 1981 outlays resulting from unexpected economic developments, higher unemployment for instance, was about 5 percent of total outlays each year. Thus, a reserve of 5 to 8 percent should be sufficient.

At the same time, economic downturns should not be automatic justifications for greatly increased spending. While certain payments, such as those for income support, would rise with higher unemployment levels, the Congress should be expected to make up at least part of the difference by further trimming back lower priority spending. The three-fifths vote requirement would ensure that this option is given a fair hearing. Similar procedures for prioritizing outlays and contingency funding have been used by businesses and state and local governments for many years.

The second major objection, that the amendment would be circumvented, is similarly without foundation. In particular, the terms "outlays" and "receipts" are explicitly defined both in the amendment and in the legislative history; there should be no dispute about their meaning, and thus no successful attempt to subvert the amendment's intent by redefining its terms.

Similarly, even if the President's proposal to bring off-budget agencies on-budget is not enacted, the amendment also specifically prohibits the exclusion of off-budget outlays from

the budget statements. Thus, the present tactic of maintaining high spending levels by shifting programs "off-budget" could not be used to circumvent the requirement for a balanced budget statement.

It is true, of course, that the amendment will not eliminate spending pressures; this is neither possible nor necessary. The amendment will, however, provide a far more effective means for coping with these pressures, to ensure that they do not play the inordinate role they have in recent years in keeping spending high.

It is also true that adoption of the Amendment would not solve the deficit problem overnight, but serious supporters of the amendment have never claimed that it would. It might take several years before the budget could be brought back completely into balance. In the meantime, however, members of the Congress would be required to develop a sense of discipline when authorizing spending totals.

A final concern is the wisdom of addressing economic matters in the Constitution. This is a false issue; the Constitution already applies to many areas of economic activity. For example, it regulates certain taxing powers, the imposition by States of tariffs or duties, Congressional appropriation procedures, and the coinage of money. It also assigns Congress the authority to regulate interstate commerce. The addition of the balanced budget/tax limitation amendment to the Constitution, by establishing a standard for budget-making procedures, merely follows in this spirit.

Conclusion

The fact that thirty-two State legislatures have approved resolutions calling for a Constitutional convention to consider a balanced budget amendment, and several more States are considering such a resolution, shows that the amendment has massive support in State legislatures. The overwhelming popular support for a balanced budget amendment stems directly from Americans' understandable frustrations with years of high inflation, rising taxes, real declines in purchasing power, and a seemingly endless cycle of Federal deficit spending. Individual Americans who must live within their own means have every right to expect and demand that their government do so as well. Therefore, the Administration urges the Congress to adopt the Constitutional amendment now pending before it.

TREASURY NEWS

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EMBARGOED UNTIL DELIVERY
EXPECTED AT 4:15 P.M. (LOCAL)
TUESDAY, OCTOBER 8, 1985

STATEMENT OF THE HONORABLE JAMES A. BAKER, III
SECRETARY OF THE TREASURY
OF THE UNITED STATES

BEFORE THE
JOINT ANNUAL MEETING OF
THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK
OCTOBER 8, 1985
SEOUL, KOREA

Chairman Touré, Managing Director de Larosiere, President Clausen, fellow Governors, and distinguished guests:

It is a pleasure to be here for the 40th annual meeting of the International Monetary Fund and the World Bank. Strong, effective international financial institutions are as essential to our economic well being today as they were 40 years ago.

Our host country, Korea, is a nation whose economic success is surpassed only by its warm hospitality. Korea's market-oriented approach and strong emphasis on private initiative are a lesson for us all.

Foundation for Growth

I would like to focus my comments today on policies for growth within the context of the international debt strategy. Sound policies and sustained, low-inflation growth in the industrial countries must provide the essential foundation for a successful debt strategy, and are a prerequisite for stronger growth in the debtor countries.

The major industrial countries have already made considerable progress in this direction. Two weeks ago in New York the Finance Ministers and Central Bank Governors of the Group of Five industrial nations underscored the progress which had been achieved, particularly with regard to the convergence of economic performance toward sustained, low-inflation growth. They also announced a set of policy intentions that will help to consolidate and extend that progress and to improve and sustain growth for the longer term.

We emphasized, for our own countries, the central importance of reducing structural rigidities, strengthening incentives for the private sector, reducing the size of government, and improving the investment environment. We also rededicated our governments to resisting protectionist pressures that threaten our own prosperity and the opportunities for others. We must jointly accelerate our efforts to launch a new round of trade negotiations within the GATT.

B-302

These industrial nations agreed that the significant progress already achieved in promoting a better convergence of their economic performance had not been fully reflected in exchange markets and that some further orderly appreciation of the main non-dollar currencies against the dollar was desirable. We expressed our willingness to cooperate more closely to encourage this when to do so would be helpful.

This package of measures had an immediate, significant impact on exchange markets which continues to be positive, and reflects the importance of the commitments made.

I am convinced that if each of the major industrial nations fulfills its policy intentions and maintains or improves access to its markets, we will have taken a major step toward more balanced and sustainable growth, while providing a solid framework for improving the debt situation in the developing world.

Strengthening the Debt Strategy

Fellow Governors, it is essential that we begin the process of strengthening our international debt strategy.

Three years ago the international financial community developed a flexible, cooperative, case-by-case strategy to address the debt problem and lay the basis for growth in the debtor nations. In three years:

-- Aggregate current account deficits in developing countries have been sharply reduced from $104 billion in 1982 to $44 billion this year.

-- Growth in developing countries has been restored to about 4 percent, compared to less than 2 percent in 1982.

-- This growth has been fueled by sharp increases in developing nations' exports, including a 21 percent increase in their exports to the United States last year.

These developments reflect improved growth and sharply lower interest rates in the industrial nations, as well as adoption of improved policies within most debtor countries. These policies have been given important support by reschedulings and rollovers amounting to approximately $210 billion, and by net new commercial bank lending.

The international financial institutions have also played an important role in the progress that has been achieved. The IMF in particular has very capably played a leadership role, providing guidance on policies and temporary balance of payments financing, both of which have catalyzed commercial bank flows.

Despite this progress, some serious problems have developed. A number of principal debtor countries have recently experienced setbacks in their efforts to improve their economic situations, particularly with regard to inflation and fiscal imbalances, undercutting prospects for sustained growth. Bank lending to debtor nations has been declining, with very little net new lending anticipated this year. The sense of increasing reluctance among banks to participate in new money and debt rescheduling packages has introduced serious uncertainties for borrowers, in some cases making it more difficult for them to pursue economic reforms.

These problems need to be addressed, promptly and effectively, by building upon the international debt strategy in order to improve the prospects for growth in the debtor countries. This is an enterprise which will require, above all, that we work together and that we each strengthen our commitment to progress.

If the debt problem is to be solved, there must be a "Program for Sustained Growth", incorporating three essential and mutually reinforcing elements:

- First and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation.

- Second, a continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development banks (MDBs), both in support of the adoption by principal debtors of market-oriented policies for growth.

- Third, increased lending by the private banks in support of comprehensive economic adjustment programs.

I want to emphasize that the United States does not support a departure from the case-by-case debt strategy we adopted three years ago. This approach has served us well; we should continue to follow it. It recognizes the inescapable fact that the particular circumstances of each country are different. Its main components, fundamental adjustment measures within the debtor nations and conditionality in conjunction with lending, remain essential to the restoration of external balance and longer-term growth.

We need to build upon the current strategy to strengthen its ability to foster growth. There must be greater emphasis on both market-oriented economic policies to foster growth and adequate financing to support it.

In essence, what I am suggesting is that adequate financing can be made available through a combination of private creditors and multilateral institutions working cooperatively, but only where there are reasonable prospects that growth will occur. This will depend upon the adoption of proper economic policies by the developing countries. Financing can only be prudently made available when and as effective policies to promote economic efficiency, competitiveness and productivity -- the true foundations of growth -- are put in place. We cannot afford to repeat the mistakes of the past. Adjustment must continue. Adjustment programs must be agreed before additional funds are made available, and should be implemented as those funds are disbursed.

These efforts should be mutually reinforcing. Sound policies in the principal debtor countries will not only promote growth, but will also stimulate the needed private bank lending. And it will be important that these policies be supported by the IMF, complemented by the MDBs. These institutions can help encourage and catalyze both needed policies and financing.

In today's highly interdependent world economy, efforts at economic isolationism are doomed to failure. Countries which are not prepared to undertake basic adjustments and work within the framework of the case-by-case debt strategy, cooperating with the international financial institutions, cannot expect to benefit from this three-point program. Additional lending will not occur. Efforts by any country to "go it alone" are likely to seriously damage its prospects for future growth.

I would like to elaborate on the actions that will be required by each participant in this three-point program.

Structural Change in the Principal Debtors

The essence of the need for structural change in the principal debtors is captured in two quotations I would like to share with you.

First:

> "The only way to overcome our economic crisis is to tackle at their root the structural problems of our economy to make it more efficient and productive." 1/

1/ President de la Madrid at Mexican Bankers Association Annual Meeting, July 22, 1985.

And second:

> "Economic growth will have solid foundations only if we reestablish trust and stimulate private enterprise, which must be the flagship of our economic development... We will promote authentic institutional change in the economic sector." 2/

These are not the words of a U.S. Secretary of the Treasury. They are statements made in July of this year by the Presidents of Mexico and Brazil. I believe they reflect a growing sentiment in Latin America.

It is essential that the heavily indebted, middle income developing countries do their part to implement and maintain sound policies. Indeed, without such policies, needed financing cannot be expected to materialize. Policy and financing are not substitutes but essential complements.

For those countries which have implemented measures to address the imbalances in their economies, a more comprehensive set of policies can now be put in place, which promises longer term benefits from stronger growth, higher standards of living, lower inflation, and more flexible and productive economies. These must not only include macroeconomic policies, but also other medium and longer term supply-side policies to promote growth.

We believe that such institutional and structural policies should include:

-- increased reliance on the private sector, and less reliance on government, to help increase employment, production and efficiency;

-- supply-side actions to mobilize domestic savings and facilitate efficient investment, both domestic and foreign, by means of tax reform, labor market reform and development of financial markets; and

-- market-opening measures to encourage foreign direct investment and capital inflows, as well as to liberalize trade, including the reduction of export subsidies.

2/ President Sarney in a televised address to the nation, July 23, 1985.

This broader approach does not mean that policy areas that have been the focus of efforts to date -- in particular fiscal, monetary, and exchange rate policies -- can receive less attention. Indeed, macroeconomic policies have been central to efforts to date and must be strengthened to achieve greater progress. These policies should consist of:

-- market-oriented exchange rate, interest rate, wage and pricing policies to promote greater economic efficiency and responsiveness to growth and employment opportunities; and

-- sound monetary and fiscal policies focused on reducing domestic imbalances and inflation and on freeing up resources for the private sector.

The cornerstone of sustained growth must be greater domestic savings, and investment of those savings at home. Macroeconomic and structural policies which improve economic efficiency, mobilize domestic resources, and provide incentives to work, save, and invest domestically will create the favorable economic environment necessary for this to occur. Such an environment is also critical to attract supplemental foreign savings.

As a practical matter, it is unrealistic to call upon the support of voluntary lending from abroad, whether public or private, when domestic funds are moving in the other direction. Capital flight must be reversed if there is to be any real prospect of additional funding, whether debt or equity. If a country's own citizens have no confidence in its economic system, how can others?

There are essentially two kinds of capital inflows: loans and equity investments. Foreign borrowings have to be repaid -- with interest. Equity investment, on the other hand, has a degree of permanence and is not debt-creating. Moreover, it can have a compounding effect on growth, bring innovation and technology, and help to keep capital at home.

We believe that the debtor nations must be willing to commit themselves to these policies for growth in order that the other elements of a strengthened debt strategy can come into place.

Enhanced Effectiveness of the International Financial Institutions

The international financial institutions must also play an important role in strengthening the debt strategy to promote growth. However, we must recognize that the international financial institutions cannot have sufficient resources to meet the debtor nations' financing needs all by themselves. An

approach which assumes that the IMF and the World Bank are the sole answer to debt problems is simply a non-starter. For most developing countries other sources must play a more important role. These include private sector borrowing, increased export earnings, foreign equity investment, and repatriation of capital which has fled abroad. All these routes should be pursued.

Among the international financial institutions, the IMF has played a major role in advising member nations on the development of policies necessary to promote adjustment and growth. There has been a particular focus on monetary, fiscal, and exchange rate policies, although increasing attention is being paid to other areas such as trade liberalization, pricing policies, and the efficiency of government-owned enterprises.

Emphasizing growth does not mean deemphasizing the IMF. Through both its policy advice and balance of payments financing, the Fund has played a critical role in encouraging needed policy changes and catalyzing capital flows. It must continue to do so. But it must also develop new techniques for catalyzing financing in support of further progress. "Enhanced surveillance," for example, can sometimes provide an effective means of continued IMF involvement.

The Fund should give higher priority to tax reform, market-oriented pricing, the reduction of labor market rigidities, and to opening economies to foreign trade and investment. This will help assure that Fund-supported programs are growth-oriented. It will be particularly important for the Fund to work closely with the World Bank in this effort.

I would now like to turn more directly to the role of the MDBs, which need to be brought into the debt strategy in a stronger way, without diminishing the role still to be played by the IMF.

The World Bank, and indeed all MDBs, have considerable scope to build on current programs and resources, and to provide additional assistance to debtor nations which is disbursed more quickly and targeted more effectively to provide the needed stimulus to growth.

There is ample room to expand the World Bank's fast-disbursing lending to support growth-oriented policies, and institutional and sectoral reform. An increase in such lending can serve as a catalyst for commercial bank lending.

A serious effort to develop the programs of the World Bank and the Inter-American Development Bank (IDB) could increase their disbursements to principal debtors by roughly 50 percent from the current annual level of nearly $6 billion.

Increased disbursements would require greater borrowing by the MDBs in world capital markets. Their ability to borrow at low rates is a precious asset which must be preserved. Therefore, their lending must be in support of sound economic programs that enhance the borrower's ability to service its debt and grow.

It should be possible, with a concerted effort by both the World Bank and borrowers, to streamline World Bank operations in order to reduce considerably the time period required to formulate and implement such assistance programs. This will expedite the actual disbursement of funds.

The value and role of an indigenous, competitive private sector needs to be recognized and developed more fully than it has in the past. The Bank, for its part, should actively promote the development of the private sector and, where appropriate, provide direct assistance to this sector. In addition, the Bank should seek to assist, both in a technical and financial capacity, those countries which wish to "privatize" their state-owned enterprises, which in too many cases aggravate already serious budget deficit problems.

Given the importance of increasing commercial bank flows to the principal debtors, there is also an urgent need for efforts to expand the Bank's co-financing operations. These efforts should be pursued vigorously to increase the effectiveness of the Bank in helping its borrowers to attract private finance, and should have substantial potential in the context of this three-point program.

The enhanced program of the International Finance Corporation, with an expanded capital base, and the recently negotiated Multilateral Investment Guarantee Agency (MIGA) are two important Bank Group initiatives in support of developing countries. Both organizations can do much to assist their members in attracting non-debt capital flows as well as critical technological and managerial resources. We urge all Bank Members and particularly the principal debtors to give their full support to establishment of the MIGA.

If developing countries implement growth-oriented reform; if commercial banks provide adequate increases in net new lending to good performers; and if increased demand for quality IBRD lending demonstrates the need for increased capital resources, we would be prepared to look seriously at the timing and scope of a general capital increase.

We believe the World Bank's efforts can be supplemented actively by the regional development banks. Since some of the

most serious debt problems are found in Latin America, special emphasis should be placed on strengthening the IDB's policies to enable it to be a more effective partner in support of growth-oriented structural reform.

In the case of an IDB capital increase, it will be critical to assess the extent to which the institution strengthens its lending policies. There must be well-defined economic and country strategies tailored to enhance economic reforms which encourage growth. Given a firm commitment by the IDB to move in this direction, we believe that it should be permitted to introduce a major program of well targeted non-project lending. In the meantime, such lending could be associated with World Bank programs until the IDB has implemented the necessary reforms.

Increasing Lending by the International Banking Community

The international banking community has played an important role during the past three years. I am, however, concerned about the decline in net bank lending to debtor nations over the past year and a half, particularly those nations which are making progress. All of us can appreciate the commercial banks' concerns, but we believe these concerns would dissipate if the banks were confident that new lending is in support of policies for growth in the developing nations.

If creditor governments, in an age of budget austerity, are to be called upon to support increases in multilateral development bank lending to the debtor nations, and if the recipient nations are asked to adopt sound economic policies for growth to avoid wasting that financing, then there must also be a commitment by the banking community -- a commitment to help the global community make the necessary transition to stronger growth.

Our assessment of the commitment required by the banks to the entire group of heavily indebted, middle income developing countries would be net new lending in the range of $20 billion for the next three years. In addition, it would be necessary that countries now receiving adequate financing from banks on a voluntary basis continue to do so, provided they maintain sound policies.

I would like to see the banking community make a pledge to provide these amounts of new lending and make it publicly, provided the debtor countries also make similar growth-oriented policy commitments as their part of the cooperative effort. Such financing could be used to meet both short-term financing and longer-term investment needs in the developing countries, and would be available, provided debtors took action and multilateral institutions also did their part.

We would welcome suggestions from the banking community about arrangements which could be developed in order to ensure that adequate financing to support growth is available.

The Poorest Countries

Before concluding my statement, I would like to focus briefly on the problems of another set of debtor countries, the low-income debtors with protracted balance of payments problems. Special efforts are being made to assist these countries, but more can and should be done to improve their longer-term prospects.

The United States believes that the resources provided by the Trust Fund reflows provide a unique opportunity to help address the economic problems of the poorest countries with protracted balance of payments difficulties. Recent experience demonstrates that successful resolution of the economic problems of these countries requires a comprehensive approach, including fundamental structural policy changes, as well as sound macroeconomic policies.

The $2.7 billion in Trust Fund reflows present us with an opportunity to utilize IMF resources, possibly supplemented by funds from other sources, in support of such comprehensive economic programs. The effectiveness of such programs would be enhanced by close cooperation between the Fund and Bank. In some cases, this could best be accomplished by a joint approach by the two institutions in support of comprehensive programs.

The United States is also prepared to consider a bolder approach, involving more intensive IMF and World Bank collaboration. We believe that this approach would help ensure that the institutions provide sound, mutually consistent advice on the full range of policies to promote growth.

The United States, which supported African countries with $1.7 billion in bilateral aid in 1985, would be prepared to consider seeking resources in support of such a far-reaching approach if other donors were prepared to make equitable contributions.

We recognize that some may have reservations about such an approach, viewing it as complicated and difficult to implement. I can understand some of those concerns, and believe they suggest the need for further reflection on certain aspects of this proposal. But, we cannot let parochial resistance or unfounded suspicions block an idea that can significantly help the poorest countries and strengthen ties between the Fund and the Bank. I urge you to give this approach further consideration during the months ahead.

Conclusion

In conclusion, much has been accomplished in the past few years in addressing the pressing economic problems of the early 1980s and preparing the foundation for future global growth. We must now join together to consolidate our progress in building stronger economies for the future.

Sound policies and growth in the industrial world can provide a solid foundation for strengthening and adapting the current international debt strategy. Let us not lose the present opportunity. I have proposed a three-point "Program for Sustained Growth" to provide renewed impetus for resolving the debt problem. We must not deceive ourselves. There are no easy solutions, and none of us can escape our responsibilities.

The principal debtor nations must make the hard policy decisions to restructure their economies. The commercial banks must provide adequate resources to support these efforts. The MDBs must increase the efficiency and volume of their lending.

Moving from proposal to implementation will be a demanding exercise and cannot be accomplished overnight. As we adapt our strategy, we must continue to look to the IMF as the catalyst for new financial flows. And with these new flows will come new hope.

We will be building on the efforts of the past. The needs are clearly recognized by borrowers and creditors alike. Fundamentally, there is no disparity of interest among our nations. We have a common interest in growth -- sustained growth that rests on productivity, innovation and investment. Let us begin our efforts now.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 8, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $14,000 million, to be issued October 17, 1985. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $13,963 million. 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 15, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately $7,000 million, representing an additional amount of bills dated July 18, 1985, and to mature January 16, 1986 (CUSIP No. 912794 JN 5), currently outstanding in the amount of $7,283 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $7,000 million, representing an additional amount of bills dated April 18, 1985, and to mature April 17, 1986 (CUSIP No. 912794 KB 9), currently outstanding in the amount of $8,362 million, the additional and original bills to be freely interchangeable.

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.

The bills will be issued for cash and in exchange for Treasury bills maturing October 17, 1985. Tenders from Federal Reserve Banks for their own account 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. Federal Reserve Banks currently hold $1,126 million as agents for foreign and international monetary authorities, and $3,082 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

B-303

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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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

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

For Immediate Release
Tuesday, October 8, 1985

Treasury Department Statement

In hope that the Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5 billion of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m.

B-304

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

October 8, 1985

Dear Senator Byrd:

This note is to provide you with our latest cash projection. As of this morning, we project an ending balance for October 8 (today) of zero; and -- absent remedial action -- a negative ending balance for October 9 (tomorrow).

We continue to hope that the Congress will act promptly to avoid the undesirable alternatives I referred to in my letter of October 7 (either unprecedented and questionable use of Federal Financing Bank authority, or an unprecedented default by the United States). Accordingly, at noon today Treasury will release the following public statement:

> "In hope that the Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5 billion of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m."

In anticipation of action that would allow us to proceed with this financing, we and the Federal Reserve should be able to manage payments so as to avoid a default.

For all the obvious reasons, we again urge that the Congress act promptly to raise the current debt limit.

Sincerely,

Richard G. Darman
Acting Secretary

The Honorable Robert C. Byrd
United States Senate
Washington, D.C. 20510

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

October 8, 1985

Dear Mr. Majority Leader:

This note is to provide you with our latest cash projection. As of this morning, we project an ending balance for October 8 (today) of zero; and -- absent remedial action -- a negative ending balance for October 9 (tomorrow).

We continue to hope that the Congress will act promptly to avoid the undesirable alternatives I referred to in my letter of October 7 (either unprecedented and questionable use of Federal Financing Bank authority, or an unprecedented default by the United States). Accordingly, at noon today Treasury will release the following public statement:

> "In hope that the Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5 billion of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m."

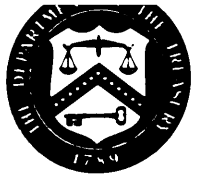
In anticipation of action that would allow us to proceed with this financing, we and the Federal Reserve should be able to manage payments so as to avoid a default.

For all the obvious reasons, we again urge that the Congress act promptly to raise the current debt limit.

Sincerely,

Richard G. Darman
Acting Secretary

The Honorable Robert Dole
United States Senate
Washington, D.C. 20510

TREASURY NEWS 

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

FOR IMMEDIATE RELEASE October 8, 1985

TREASURY OFFERS $5,000 MILLION OF 78-DAY CASH MANAGEMENT BILLS

In hope that Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5,000 million of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m.

The Department of the Treasury, by this public notice, invites tenders for approximately $5,000 million of 78-day Treasury bills to be issued October 9, 1985, representing an additional amount of bills dated December 27, 1984, maturing December 26, 1985 (CUSIP No. 912794 HQ 0).

Competitive tenders will be received only at the Federal Reserve Bank of New York prior to 12:30 p.m., Eastern Daylight Saving time, Wednesday, October 9, 1985. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender for the issue must be for a minimum amount of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, or at any Federal Reserve Bank or Branch other than the Federal Reserve Bank of New York.

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

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:00 noon, Eastern time, on the day of the auction. Such positions would include bills acquired through "when issued" trading, 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.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank of New York in cash or other immediately-available funds on Wednesday, October 9, 1985. 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, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars may be obtained from any Federal Reserve Bank or Branch.

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

FOR IMMEDIATE RELEASE October 9, 1985

TREASURY AFFIRMS OFFER OF $5,000 MILLION
OF 78-DAY CASH MANAGEMENT BILLS

The Treasury Department will conduct the auction of 78-day cash management bills as announced on October 8. We continue to hope that the Congress will act to raise the debt limit in order to allow this auction to proceed to closure without the use of Federal Financing Bank (FFB) authority. If, however, the Congress fails to raise the debt limit, Treasury will use FFB borrowing authority (which is not subject to the debt limit) to issue FFB securities to substitute for existing nonmarketable Treasury debt. Treasury will redeem the nonmarketable debt in an amount sufficient to permit issuance of the Treasury bills being auctioned today. Accordingly, these securities will be backed by the full faith and credit of the United States and will be within the current applicable debt limit. Only in the event that Congress fails to raise the current debt limit today will this procedure be used in order to ensure that the Government can raise cash in order to avoid default.

B-306

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 9, 1985

RESULTS OF TREASURY'S AUCTION OF 78-DAY CASH MANAGEMENT BILLS

The Treasury has accepted $5,010 million of the $16,375 million of tenders received at the Federal Reserve Bank of New York for the 78-day Treasury bills to be issued October 9, 1985, and to mature December 26, 1985, auctioned today. The range of accepted bids was as follows:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low	7.20%	7.42%	98.440
High	7.25%	7.47%	98.429
Average	7.23%	7.44%	98.434

Tenders at the high discount rate were allotted 48%.

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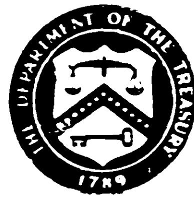
TREASURY NEWS



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

For Immediate Release
October 11, 1985

Contact: Charles Powers
566-2041

TREASURY DEPARTMENT ASSESSES PENALTY AGAINST RIGGS NATIONAL BANK UNDER BANK SECRECY ACT

The Department of the Treasury announced today that Riggs National Bank of Washington, D.C., has agreed to a settlement that requires Riggs to pay a civil penalty of $269,750 for failure to report 1,226 currency transactions between 1980 and 1985 as required by the Bank Secrecy Act.

The maximum penalty that could have been assessed for violations during the period in question was $1,000 for each violation.

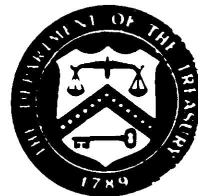
The decision, announced by David D. Queen, Acting Assistant Secretary for Enforcement and Operations, said the penalty represented a complete settlement of Riggs' civil liability on these 1,226 violations. Queen said Riggs voluntarily and promptly brought this matter to the attention of the Department of the Treasury.

In addition, the compliance deficiencies that led to the violations originated prior to the installation of the current ownership and management. Upon discovery of the reporting failures, current management cooperated fully with Treasury, and conducted a thorough internal investigation of its Bank Secrecy Act compliance. Riggs has instituted measures to ensure full compliance with reporting requirements in the future.

The Department of the Treasury has no evidence that Riggs knowingly engaged in money laundering or criminal behavior in connection with the 1,226 reporting violations.

Queen said, "We view Bank Secrecy Act reporting failures, for whatever reason, as extremely serious. Failures to file timely currency reports deprive Treasury of potentially useful law enforcement information."

This year more than 60 financial institutions have disclosed reporting violations to Treasury. Most of the banks have come forward voluntarily, a few after non-compliance was discovered by bank regulators. In June, four New York banks agreed to pay penalties ranging from $210,000 to $360,000; in August, Crocker National Bank agreed to pay $2.25 million. The possible civil liability of the other financial institutions is under review.

TREASURY NEWS 
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For Immediate Release
October 11, 1985

Contact: Charlie Powers
Phone: (202) 566-2041

**TREASURY IMPLEMENTS BAN ON IMPORTATION
OF SOUTH AFRICAN KRUGERRANDS**

The Department of Treasury announced the issuance today of South African Transactions Regulations to implement Executive Order Number 12535 of October 1, 1985, prohibiting the importation into the United States of South African Krugerrands. The Regulations are effective as of 12:01 a.m. today, Eastern Daylight Time, and will appear in the Federal Register.

The ban covers Krugerrands in all denominations, and also Krugerrands that have been modified, as by the addition of a clasp or hoop, so that they can be worn as jewelry. The Krugerrands already in the United States are not affected by the ban.

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B-309

TREASURY NEWS

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ON NEW TIDES AND NEW DAWNS: THE NEXT PHASE OF ECONOMIC POLICY REFORM

REMARKS BY
RICHARD G. DARMAN
DEPUTY SECRETARY OF THE TREASURY

BEFORE
THE BUSINESS COUNCIL

AT
THE HOMESTEAD
OCTOBER 11, 1985

I. THE DARK BEFORE DAWN

Through a Glass Darkly

At your last meeting here, I had the opportunity to listen to your economic advisers' report. It was ominous.

But that report was not alone in its dire forebodings. Indeed, for the past few years, many conventional economic analysts -- even including some of our own -- have been looking through a glass rather darkly.

Many still are. I expect that today the distinguished former CEA chairman -- who will speak to you shortly -- may continue in the tradition that earned him the nickname "Dr. Gloom." And just the other day, I noted that my very good friend, the former budget Director known as "Dr. Pain," was also still at it. He emerged from bookwriting in his cellar; and, a little like a groundhog seeing light, he uttered a few sounds and went back underground. "The joy ride is over," he said.

There was perhaps some irony in this -- coming as it did from a person of new-found leisure who is about to enjoy the benefits of entering two of the most highly-paid clubs in the world: those of Washington best-seller-writers (at rates of over $5000 per page), and New York investment bankers (at multiples of the identifiable value-added that some might judge to be infinite!).

Luckily, the gloomsayers have been consistently off the mark. But I certainly don't mean to make light of dark visions.

There are obvious reasons for concern. Many important economic variables are undesirably high: real interest rates, the fiscal and trade deficits, the dollar, urban unemployment, LDC debt (in relation to debt service capacity), and protectionist sentiment. There is, in addition, the ridiculous and seemingly absurd spectacle of our democratic political institutions struggling to deal with such straightforward issues as managing our fiscal affairs so as to avoid default.

II. DAWN'S EARLY LIGHT

But at the risk of seeming too rosy in the face of dark reality, let me focus on what seem to me to be rays of hope -- as we look toward the next phase of economic policy reform.

De-mythologizing Economics

The first is one that I doubt my economist friends would see exactly as I do. I would give it this shorthand label: "de-mythologizing economics."

Let me explain.

It is only since the Kennedy administration that economists have gained a special place in the decisionmaking circles of heads of state -- like Churchmen at the table of a Jacobean king. As it has happened, they have had the good fortune to have enhanced the reputation of their profession by the timeliness of their arrival at the table: It coincided with the decade of growth stimulated not by economic wisdom, but by the Baby Boom, the Great Society, and Viet Nam. As a curious consequence, the presumed power of economic wisdom has risen, in some quarters, to near mythic proportions.

The field of economics only recently gained for itself the respectability of the label "science." In my view, that is of questionable appropriateness.

The practical facts of the matter are these: Yes, micro-economics is clearly useful -- insofar as it is sensibly applied mathematics. But macro-economics is still primitive. And to think otherwise can be dangerous.

Macro-economic forecasts are often closer to each other than they are to being correct. Indeed, respectable forecasters are sometimes off by as much as plus or minus 2 percent of GNP for the very quarter they are in. That range of error can be the difference between healthy growth and recession. A comparable error in the space program might have accidentally sent Neil Armstrong toward Mars rather than the Moon.

I don't mean this criticism to be personal. Macroeconomics is handicapped by certain inherent limits upon experimentation and analysis. These limits make it extremely difficult for the field to develop reliable "truths" (other than those that seem obvious). It is important that these limits be appreciated.

Nor would I mean to suggest that the Administration is somehow free from these limits. On the contrary, the divergence of views among competing schools within the Administration -- supply-siders, monetarists, and traditional austerity advocates -- reinforces my point: We are still a long way from establishing definitive economic wisdom.

The good news, as I see it, is this: Not only have the traditional gloomsayers been consistently wrong in recent years; but also, there has been an increasing appreciation of the fallibility of economics generally.

Why is that a reason for hope? Because excessive confidence in the validity of any one point of view, when still untested, can get a society into trouble. A bit less confidence in pseudo-scientific wisdom can lead to a more prudential reliance upon common sense. And it seems to me we are moving in that direction.

Re-politicizing Economics

As economics has fallen from the purity of its claim to "science," it has again been recognized as inescapably entwined with politics. To my mind, that is a second hopeful development (although I know it offends some of my purer friends). For commonsensical economic wisdom cannot effectively be advanced in a context of uncompromising hubris about theory: Economic progress cannot be separated from realpolitik.

To be slightly less abstract:

- A purist's quest for "deregulation" may have much to recommend it. A pragmatic quest for "regulatory reasonableness" has the additional virtue of being politically practicable.

- An absolute monetarist's quest for price stability reflects a worthy objective. An eclectic approach may have greater practical chance of achieving the desired objective -- in the real political world.

- "Free" trade may have a better chance of advancement when combined with pragmatic attention to "fair" trade.

- A healthy floating exchange rate system may have a better chance of surviving when combined with the judicious use of intervention.

- Short-run stabilization programs and market-oriented changes in developing countries' internal policies may have a better chance of advancement when combined with practical sensitivity to the political need for sustainable economic growth.

In all these areas, it seems to me that one sees healthy signs of an increasingly pragmatic connection between commonsense economics and the dictates of realpolitik.

So, in short, I suppose I could say that I am optimistic for exactly the reasons that make some people worry: I see less confidence in theoretical absolutism and more attention to political realism in the advancement of commonsense economic policies.

III. MANY SUNS, MANY MOONS

That said with regard to general attitude and approach, the question remains: What is to be the likely focus in the next phase of economic policy reform?

Obviously, tax reform is high on Treasury's and the President's list -- and it will be high on the Congress' list for the weeks immediately ahead. Having spoken here on this subject before, and having to speak on it every day in the Ways and Means Committee markup, I take the liberty of passing over it quickly in these remarks -- with the intention of treating the subject in response to any questions you may have.

Let me offer just four thoughts on this now.

- First: Periodic deathknells notwithstanding, tax reform is coming. It is coming because the current system is approaching a danger point in its loss of public confidence; because the dynamics of the current system are moving it toward self-destruction; and because informed opinion is increasingly oriented toward substantial reform. Exactly when and what reform may be enacted is a matter of risky prediction. But _whether_ there will be substantial reform is not: Significant reform is close to inescapable.

- Second: The Rostenkowski package will be improved as it moves through the legislative process.

- Third: For those who insist upon linking tax reform with the issue of U.S. competitiveness, a bit of perspective may be useful. From the standpoint of competitiveness, the change in the value of the dollar on a single recent day, September 23, was more significant than the elimination of the corporate income tax would be.

- Fourth: Though many of you will find Marty Feldstein's thoughts on tax reform congenial, I suspect I will not. So if you see me listening quietly as he speaks, please interpret that as politeness.

In addition to tax reform, there are, of course, many other significant substantive areas of economic policy reform that will gain increased attention. These range from defense reforms necessary to adapt to evident resource constraints, to middle class entitlement program reforms, to the pursuit of freer trade arrangements with Canada and the Pacific basin, to the development of the next phase of the LDC debt strategy. The substantive issues are, evidently, diverse.

But the general point I would wish to make in these remarks is not about particular substantive reforms. It is, rather, about procedural reforms. For it seems to me that a significant distinguishing characteristic of the next phase of economic policy reform may well come under the procedural heading.

Domestically, we are beginning to see this in the context of the debate over the debt ceiling and the associated deficit reduction amendments. The interesting and obvious thing to observe in this otherwise bizarre spectacle is that the Congress is, in effect, confessing that the current budget process is flawed and must be changed. The existing process clearly lacks both sufficient capacity to effect a coherent strategy and the discipline to assure fiscal responsibility.

Deficits now are widely and visibly lamented by politicians of divergent ideological persuasion and of consistent good will. But the system has not satisfactorily forced closure on the problem.

That now being acknowledged, there is a much greater likelihood of attention to such procedural remedies as: line item veto, enhanced recision authority, binding deficit targets, balanced budget requirements, and self-executing deficit reduction safeguards. A symptom of movement toward the latter -- self-executing deficit reduction safeguards -- is the Senate's recent passage of the Gramm-Rudman-Hollings amendment, on a strong majority vote that stretched from Senator Kennedy to Senator Helms.

All such procedural measures involve difficult issues of balance-of-power between the Legislature and the Executive. But in their differing ways, they have one politically crucial thing in common: They provide a greater degree of "cover" -- or an easier excuse -- for those who might wish to do what would otherwise be unpopular.

In an era of seemingly boundless propensity to create debt, some such cover is essential for effective discipline to be imposed.

Internationally, I would suggest there is a somewhat analogous need for procedural reform.

When I last spoke before this group, I suggested that the annual economic summits of industrialized countries were of limited substantive utility. I acknowledged and applauded their symbolic and their interpersonal value. But I noted, as anyone who reads their communiques might, that they tend to be abstract, repetitive, and rather unconnected with operational reality.

Yet since the summits' creation, they have become the principal, political-level forum for international economic policy coordination -- such as it is.

In an era of increasingly acknowledged interdependence, this seems anomalous.

I suggest what seems to me to be obvious: There needs to be a stronger and more continuous means of coordinating the development of economic policy among the major industrial countries.

The recent reinvigoration of the so-called "Group of Five" -- most notably reflected in the New York meeting of September 22nd -- marks a useful procedural step forward in this regard. Indeed, I would suggest that the extension of such procedural reform could ultimately be of far greater long-term significance than the move toward intervention that has been speculated about in the press.

As in the case of domestic procedural reform, international procedural reform seems clearly necessary to make strategy more coherent and its implementation more disciplined. I'm inclined to think its time is coming.

In both the domestic and the international contexts there is no lack of powerful suns and moons, anxious to offer light. The procedural trick is to find a way to get the relevant luminaries into predictable and complementary orbits so that they might better offer their light to our sometimes darkened world.

Perhaps my glasses are rose colored. But, again, I see rays of hope.

IV. NEW TIDE AND NEW DAWN

Indeed, I suppose I may verge on being cast as a veritable Dr. Pangloss. But it seems to me that, notwithstanding the signs of darkness, there is a rather bright prospect that one might view.

In the Reagan era to date, America has stopped its slide toward a European-style mixed economy; brought hyper-inflation under control; begun to restore incentives for work, entrepreneurship, and growth; and renewed confidence in the American-style market economy. The international debt crisis has been brought under reasonable management -- although there is obviously much to be done as we enter the next phase. In differing ways, Europe, the PRC, Japan, and several important developing countries have established at least the outlines of a trend toward greater market-orientation in their internal policies. And, notwithstanding the difficulties of adjustment, counter-productive protectionist pressures have been resisted.

Admittedly, the twin deficits -- fiscal and trade -- are symptoms of a reform and adjustment process that is not yet satisfactorily completed. But I would suggest that these two deficits are themselves encouraging further healthy reform -- not least, in the form of procedural improvements that may bring more coherence and discipline to both domestic and international economic policy.

In my view, the reformist tide is still rising. The dark that some see may be but the sign of yet another new dawn.

The only thing that worries me is that all this talk about "new tide" and "new dawn" sounds like a soap opera. And in a daily soap opera, there's no telling what tomorrow may bring.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
EXPECTED AT 10:00 A.M.
OCTOBER 16, 1985

STATEMENT OF ROBERT A. CORNELL
DEPUTY ASSISTANT SECRETARY
INTERNATIONAL TRADE AND INVESTMENT POLICY
UNITED STATES TREASURY
BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

We are grateful to the subcommittee and to you, Mr. Chairman, for permitting us to present the Administration's initiative for a so-called War Chest to combat tied aid credits. It is a major offensive in the President's campaign against foreign unfair trade practices. The legislation is designed to foster free and fair trade -- to establish a balanced competitive environment where U.S. businesses can compete fairly.

Our initiative is not designed to create a new subsidy program to promote exports. This legislation purposely avoids setting up an unfair trade practice of our own to mimic the unfair trade practices of other countries. On the contrary, the War Chest will provide the necessary leverage on governments to join the great majority of our industrial nation trading partners and negotiate an end to the misuse of tied or partially untied aid credits for predatory commercial purposes.

The Tied Aid Credit Problem

We should recognize at the outset that most of our negotiating objectives have been achieved in the field of export credits. After several years of negotiations, the 22 OECD nations revised the Arrangement on Export Credits in November 1983 to reduce greatly and in many instances eliminate export credit subsidies.

In the last year, we further agreed to essentially eliminate financial subsidies for nuclear power projects and large commercial aircraft. Moreover, participating countries, including France, agreed to prohibit the use of any tied aid credits whatsoever in these two important sectors. These

agreements by OECD member governments are among the most significant recent advances in free trade.

With the reduction of export credit subsidies, however, tied aid credits, which use aid alone or in combination with normal export credit financing, have become a more important problem for U.S. exporters. The scope of the problem is revealed by the following:

-- A recent OECD study, prepared at the behest of OECD Ministers, concluded that tied aid credits with low levels of concessionality distort aid and trade more than credits with high grant elements.

-- The number of notified tied aid credits with low grant elements has doubled since 1982.

-- The OECD predicts that the amount of such offers will increase to over $6.0 billion in 1985.

-- Although many other countries have adopted programs to match France, French tied aid credits still account for one-third of all tied aid credits with grant elements below 50 percent and more than one-half of all tied aid credits with grant elements below 35 percent.

These credits, when used for commercial purposes in the guise of foreign aid, represent an unfair trade practice, have caused the United States to lose key export sales, and have diverted funds away from development assistance. Thus, the continued use of commercially motivated tied aid credits threatens to undermine the Arrangement and increase international trade tensions.

The Negotiating Impasse

The clearest, simplest, and most direct solution to the problem of commercially motivated tied aid credits is to raise the minimum permissible grant element from the current 25 percent to 50 percent, a proposal presented by the United States to the OECD Export Credits Group in December 1983. While it would not completely eliminate the problem, it would make the cost of such credits so high that no country's aid budget could sustain such a diversion from real economic development assistance.

Increasing the minimum permissible grant element to 50 percent is not so shocking as it may appear. The most recent OECD Development Assistance Committee statistics show that the average grant element of all aid provided by these countries

was almost 90 percent in recent years. If one excludes grants, the average grant element of loans ranged between 56 and 59 percent.

To date, negotiations on tied aid credits have recorded modest successes. In 1982, OECD governments agreed to ban tied aid credits with a grant element below 20 percent. In April 1985, OECD Ministers improved discipline by raising the minimum permissible grant element from 20 to 25 percent and improved transparency through new prior notification and consultation procedures. The Ministers also directed OECD committees to develop new measures to further improve discipline and transparency. In July the Export Credits Group reached agreement on defining the tied aid credits which are causing the problem.

The U.S. Government welcomes these interim steps but, unfortunately, we have now reached an impasse. While most industrialized countries are prepared to accept greater discipline over tied aid credits, a few countries, notably France, supported by Italy, are now blocking negotiating progress. At the September 16-20 meeting of the OECD we were unable to make progress primarily because the European Community -- even with the Ministerial mandate -- had no flexibility to increase the minimum grant element or to explore alternative solutions.

We need a new initiative to break this logjam. The Trade Development and Enhancement Act of 1983, which created a tied aid credit matching program, has not given us sufficient leverage. Eximbank's ability to match has been limited since it must draw down its dwindling capital and reserves for this purpose. USAID action has been limited by the country allocation process and the requirement that its activities be for legitimate development purposes. The U.S. Government has thus offered only 12 tied aid credits since the bill was enacted. As a result, selective matching by the United States and more aggressive matching by other countries has not deterred France from continuing to offer predatory tied aid credits, nor has it encouraged France to negotiate.

The War Chest Initiative

To combat these unfair trade practices, the President has announced the following new initiative:

-- The Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for grants to mix with Eximbank credits or private sector loans. The purpose of this program of tied aid grants is to buttress the Administration's negotiating efforts to eliminate predatory tied aid credits by other countries.

-- The Export-Import Bank will begin immediately to draw on its capital and reserves to offer tied aid credits as a temporary step until the proposed legislation is enacted.

-- The Secretary of the Treasury, who has the lead in the negotiations, has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy, on which both the Export-Import Bank and AID are represented. Since the initiative is neither for export promotion nor economic development assistance, the Export-Import Bank and the Agency for International Development should not be asked to administer it.

-- The War Chest should be dismantled when sufficient negotiating progress has been achieved to restrict commercial use of tied aid credits with low grant elements.

The Administration's proposal is designed (1) to maximize negotiating leverage; (2) to avoid an open-ended entitlement program; and (3) to minimize the budgetary impact.

Leverage: To maximize negotiating leverage, we seek a War Chest of $300 million which would support up to $1 billion of exports. The War Chest would be targeted at those sectors and markets of particular importance to countries impeding negotiations.

The program should be aggressive and preemptive, not a program of merely matching tied aid credits. Other countries have matching programs which have not caused the initiators to agree to further discipline. Initiators retain the commercial advantage of being sought out first by the customer. If we only matched foreign offers, we would perpetuate rather than eliminate the practice, throwing good money after bad.

Consequently, we are proposing an offensive tied aid credit program. In particular, we seek the authority to initiate tied aid credits and if necessary to outbid selected foreign tied aid credit offers in deals which are of particular importance to countries blocking negotiations.

Cautionary Provisions: The proposed bill contains a clearly defined purpose which ties the War Chest to U.S. negotiating objectives rather than establishing a permanent subsidy and entitlement program. Treasury would control the fund. In operating the fund and selecting transactions to be targeted, however, we would rely heavily on the advice of the agencies in the National Advisory Council. In addition to a sunset provision of September 30, 1987, the President would have the

discretion to end the fund earlier if sufficient negotiating progress has been achieved.

Budgetary Impact: The budgetary impact would be limited by authorizing the use of grants rather than low interest loans (which would require higher appropriations). By appropriating the fund directly to the Department of the Treasury, we have tried to ensure that the fund does not taint the objectives of Eximbank and USAID nor divert funds from other important bilateral and multilateral assistance programs.

Conclusion

Tied aid credits and partially untied aid credits with low levels of concessionality are increasingly undermining the international system of trade and finance. Our War Chest initiative will greatly enhance our leverage to negotiate restrictions on the commercial uses of tied aid or partially untied aid credits. In order to implement the President's attack on unfair trade practices, we seek speedy enactment of our War Chest initiative.

This legislation purposely avoids setting up an unfair trade practice to match unfair trade practices of other countries. Such a course would ultimately injure all parties. Our effort is to decrease, not increase, international tensions in the field of trade finance. Our responsibilities lie in leveling the playing field for free and fair trade.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 15, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $13,800 million, to be issued October 24, 1985. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $13,786 million. 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 21, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately $6,900 million, representing an additional amount of bills dated January 24, 1985, and to mature January 23, 1986 (CUSIP No. 912794 JP 0), currently outstanding in the amount of $15,888 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $6,900 million, to be dated October 24, 1985, and to mature April 24, 1986 (CUSIP No. 912794 KC 7).

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.

The bills will be issued for cash and in exchange for Treasury bills maturing October 24, 1985. Tenders from Federal Reserve Banks for their own account 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. Federal Reserve Banks currently hold $1,137 million as agents for foreign and international monetary authorities, and $2,413 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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 15, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $7,008 million of 13-week bills and for $7,015 million of 26-week bills, both to be issued on October 17, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 16, 1986			:	26-week bills maturing April 17, 1986		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.18%	7.41%	98.185	:	7.35%	7.74%	96.284
High	7.21%	7.45%	98.177	:	7.37%	7.76%	96.274
Average	7.20%	7.44%	98.180	:	7.36%	7.75%	96.279

Tenders at the high discount rate for the 13-week bills were allotted 12%.
Tenders at the high discount rate for the 26-week bills were allotted 15%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 42,330	$ 42,330	:	$ 68,990	$ 38,990
New York	16,105,130	5,808,050	:	24,260,005	5,915,625
Philadelphia	28,945	28,945	:	28,275	25,690
Cleveland	157,645	57,645	:	33,335	33,335
Richmond	61,185	48,685	:	193,970	78,470
Atlanta	73,625	53,105	:	69,140	34,140
Chicago	1,650,620	297,420	:	1,379,420	124,720
St. Louis	70,605	50,605	:	68,775	47,925
Minneapolis	41,695	16,695	:	40,695	15,695
Kansas City	77,385	66,200	:	123,545	55,545
Dallas	39,080	29,080	:	30,840	20,840
San Francisco	1,389,920	148,160	:	1,733,795	194,845
Treasury	360,855	360,855	:	429,035	429,035
TOTALS	$20,099,020	$7,007,775	:	$28,459,820	$7,014,855
Type					
Competitive	$16,902,550	$3,811,305	:	$25,468,175	$4,023,210
Noncompetitive	1,300,540	1,300,540	:	1,086,145	1,086,145
Subtotal, Public	$18,203,090	$5,111,845	:	$26,554,320	$5,109,355
Federal Reserve	1,582,030	1,582,030	:	1,500,000	1,500,000
Foreign Official Institutions	313,900	313,900	:	405,500	405,500
TOTALS	$20,099,020	$7,007,775	:	$28,459,820	$7,014,855

1/ Equivalent coupon-issue yield.

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TREASURY NEWS

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

October 16, 1985

DON FULLERTON APPOINTED

DEPUTY ASSISTANT SECRETARY FOR TAX ANALYSIS

Secretary of the Treasury James A. Baker today announced the appointment of Don Fullerton, Associate Professor of Economics, University of Virginia, and Visiting Scholar, The American Enterprise Institute, as Deputy Assistant Secretary of the Treasury (Tax Analysis) effective October 3, 1985.

Dr. Fullerton, 32, will serve as chief economic advisor to Assistant Secretary for Tax Policy Ronald A. Pearlman, who has principal responsibility for formulation and execution of United States domestic and international tax policies. Fullerton replaces Charles E. McLure Jr., who has returned to the Hoover Institution at Stanford University.

Prior to joining the University of Virginia in 1984, Dr. Fullerton was Assistant Professor of Economics and Public Affairs, Woodrow Wilson School and Department of Economics, Princeton University, and a National Fellow at the Hoover Institution.

He earned a B.A. economics degree from Cornell University with distinction in all subjects in 1974. He received a M.A. degree in economics in 1976 and his Ph.D. degree in economics in 1978, both at the University of California, Berkeley. He is the 1979 winner of the Outstanding Doctoral Dissertation Award of the National Tax Association-Tax Institute of America.

Dr. Fullerton has also worked in the past for the U.S. Treasury Department and the Department of Justice. He is a member of the American Economic Association and the National Tax Association, He is also a member of the editorial advisory board of the National Tax Journal and has been a referee for sixteen other economic publications.

Dr. Fullerton is co-author of A General Equilibrium Model for Tax Policy Evaluation and edited The Taxation of Income from Capital: A Comparative Study of the U.S., U.K., Sweden, and West Germany. He has also published more than thirty articles on the economic effects of tax policy.

Dr. Fullerton, a native of Virginia, is married to Jo Worthy.

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TREASURY NEWS

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

For Immediate Release
October 18, 1985

Contact: Art Siddon
Phone: (202) 566-2041

**Remarks by Secretary of Treasury
James A. Baker, III
At the Liberty Gold Coin First Striking
West Point, New York
October 18, 1985**

I am pleased to be here on behalf of one of the most cherished symbols of America. To strike a coin in the image of the Statue of Liberty is to strike a blow for freedom. It echoes the struggles and triumphs of our past, when millions who "yearned to breathe free" came to the new world.

In the old world, that yearning was called 'America fever.' It swept from village to village, across a continent. It was spread by hundreds of thousands of enthusiastic letters that poured in from relatives and friends who had become Americans.

What was this 'America fever'? It was certainly a powerful affliction that drew so many from so far through such hardship. They summoned their courage and possessions and came across the vast reaches of the ocean.

They -- our own flesh and blood -- came for reasons that still drive our souls today. They came for liberty, for economic opportunity, for a chance to participate in the greatest and most successful experiment in government the world has ever witnessed. As President Reagan summed it up -- "they were captured by the American dream."

Imagine the joy of those courageous voyagers when they first saw the coastline where we now stand. Picture the sun highlighting a torch held high by a shining goddess. She beckons. Hearts leap. The destination is near.

Our duty to our country is to never forget why our ancestors felt such joy. We must always appreciate the liberty that is the strength of America.

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Without freedom, despotism and despondency fill the void. Spontaneity and innovation wither and die. Our economy no longer could create millions of jobs and a half million or so new businesses every year.

Without freedom, we are not America.

To reaffirm our belief in freedom, we preserve its symbols. This summer, President Reagan signed the Liberty Coin legislation passed by Congress.

One person today deserves special recognition for his leadership and efforts in making the Liberty coins a reality. Congressman Frank Annunzio, the Chairman of the House Subcommittee on Consumer Affairs and Coinage, wrote the bill that enables the Treasury Department to mint and issue these coins. He then shepherded the legislation through Congress. We are pleased he could be with us on this important occasion.

As Kay Ortega mentioned, the Liberty coin program not only commemorates the centennial of the Statue of Liberty, but it will play a key role in raising money to restore both the Lady herself and Ellis Island. The proceeds will help the Foundation finish a job to which many individuals and corporations have donated a great amount of time and money.

All Americans, from schoolchildren to grandparents, may buy the Liberty coins and help this vital restoration. They can follow in a tradition which began in the 1880's when individuals in America and France contributed so generously to the building of the statue.

We hope that millions of people will catch 'America fever' once more, and participate in this historic venture. Then our children, and their children, can look back, and say, "you know, way back in the 1980's, Americans joined together to preserve a precious symbol of liberty."

Thank you.

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TREASURY NEWS

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

For Release Upon Delivery
Expected at 9:30 p.m. EDT

Remarks by
Secretary of the Treasury
James A. Baker, III
At the African Wildlife Foundation Gala
Thursday, October 17, 1985
Vista International Hotel

Good evening, ladies and gentlemen. Susan and I are delighted to be here with you this evening. We really enjoy having this opportunity to see so many old friends. And since I know you are looking forward to the auction, I'm not going to spoil a pleasant occasion by holding the microphone too long.

I am impressed with the leadership in this room tonight. In your organization's almost 25-year history, you have established a distinguished reputation for your contributions to the problems of natural resource conservation in Africa. That's a reflection of the energy and attitude that make your organization unique.

Successful private sector initiatives, as well as good campaigns and good government, come from the efforts of those who get others to know and care about the public policy process, whether it be in the United States or Africa.

I'm not a well-known environmentalist, but as an ardent hunter and fisherman from the time I was six years old I have become at the very least a closet conservationist. I love the outdoors. I love clean air, and clean water. In short, I want to see our natural heritage preserved.

I know we can all agree with the stated purpose of the African Wildlife Foundation. That is, that the survival of wildlife lies in a working knowledge of the relationship between man, his economics and his environment. I'd like to talk for a few minutes tonight about the application of that guiding principle, both in Africa and in the United States.

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Because I have been to Africa, I have been interested in the press accounts of the drought. I have been struck by how rarely the connection is made between the environmental decline and the economic origins of the drought. Over the past twenty years or so the economic and environmental situation of the region has deteriorated dramatically, creating a spiral of crisis.

And according to a Congressional report, no other region of the world has experienced a steady decline in food production per capita over the past two decades. Africa's population growth is the highest in the world and there is scant expectation for rapid improvement. Food production isn't keeping pace with population growth, and the current drought has aggravated an already stressful situation.

Most of you know better than I the factors that contribute to the problems: environmental limitations, inadequate incentives, misguided or poorly developed management, insensitivity to cultural and environmental conditions, failures by local governments to provide adequate leadership, lack of political infrastructure, and an underlying inability to evaluate and deal with immediate problems, not to mention setting long-term agendas.

One mechanism we in the United States have used to try to address these problems has been foreign assistance -- both technical and financial. No group could be a better example than this one of the traditional generosity of the American people in private giving. And the record of public aid, especially to the developing countries, is one of which we can all be proud. I believe, at the risk of partisanship, that under Republican presidents, our foreign aid programs have grown to reflect our understanding of the humanitarian, economic, political, and security benefits they produce.

I also believe that we are at an important crossroads today, both in terms of private-sector and public-sector giving.

We must improve our assistance programs in ways that encourage constructive activities within the economies of the developing nations themselves. Developing countries currently receive 40 percent of all U.S. exports and are the fastest growing market, by value, for U.S. goods and services. Twenty percent of U.S. farm acreage grows crops destined for developing countries.

Agriculture is the central focus of the publicly funded portion of American aid to Africa. The Agency for International Development allocates about 60 percent of its African assistance to agriculture, or approximately $150 million for the fiscal year

just ended. Foreign aid can be used to meet short- and long-term goals. The short-term aid includes the kinds of projects that have addressed emergencies such as the famine. Your work tends to fall more naturally into the long-term category -- research, education, and other actions to promote future well-being.

There is a significant danger of seeking a solution to a current crisis, without reference to the long-range goals. This is the "quick-fix" mentality that President Reagan has been so determined to avoid.

There is no clear-cut, "right" way to proceed. But we can, I believe, focus the help we provide by recognizing some basic facts.

- Africa is over twice the size of the United States.
- It is made up of 50 vastly different countries.
- It contains a wide range of climates, environments, and a diversity of cultural, economic, and political characteristics.
- About 70 percent of Africa's 400 million people live in rural areas. They are primarily farmers and herders. Yet these "low resource" farmers and herders provide most of Africa's food.

We tend to lose sight of the vast cultural and environmental differences. In the past, American assistance has been largely based on western traditions -- high technology, capital-intensive investment, profit maximization. Slowly but surely, a consensus is emerging that your organization has been supporting all along. The technology that African economies need should be small-scale, resource conserving (not capital intensive), locally produced, adapted to local labor, and consistent with African traditions of agriculture.

Let me reinforce that point with an analogy to American political experience. The so-called Reagan Revolution draws its lifeblood from the concept that political decisionmaking belongs as close as possible to the people on whom the impact of the decision will fall. The same is true in Africa. Local people have an intimate knowledge of their own needs and environment, and they are likely to be more receptive to development in which they have a part to play.

Yes, the United States government has a role to play in helping African countries solve their economic problems. The current President of the American Association for the Advancement

of Science put it very well. "What they require from us is not advice, but action alongside them in the task of hastening their economic development. Belonging to the same world population, we have as large a stake in the outcome as they do."

But national governments in Africa are facing some difficult pressures. They have generally supported economic policies that favor urban consumers at the expense of incentives for low-resource producers. Prices paid to food producers have been artificially low, while inflation and increased international borrowing have encouraged imports of relatively inexpensive food and consumer goods. Many governments are finding it difficult to meet the standards imposed by the International Monetary Fund and the World Bank while pursuing their own sometimes contradictory national priorities.

Furthermore, African governments have shown a limited commitment to controlling the degradation of Africa's natural resource base. The problems of environmental degradation in Africa are quite different from those in industrialized countries. Development and industrialization are viewed as cures for poverty rather than causes of environmental problems. And there is considerable suspicion that by expressing concern for the environment we are covertly trying to undermine industrial development. Still, environmental awareness is gaining momentum among Africa's political leadership.

Many African countries face deep-seated structural problems associated with their being among the poorest countries in the world. We are making special efforts to assist these countries. Our bilateral aid to Africa last year was $1.7 billion! But more can and should be done to improve their longer-term prospects.

Just recently in Seoul, Korea, at the Annual Meetings of the International Monetary Fund and the World Bank, I proposed that the $2.7 billion in IMF Trust Fund reflows be utilized, possibly supplemented by funds from other sources, in support of comprehensive economic programs for the poorest countries. The effectiveness of such programs would be enhanced by close cooperation between the Fund and Bank.

I would mention that the United States is also prepared to consider a bolder approach, involving more intensive IMF and World Bank collaboration. We believe that this apporach would help ensure that the institutions provide sound, mutually consistent advice on the full range of policies to promote growth.

The United States would be prepared to consider seeking additional resources in support of such a far-reaching approach if other donors were prepared to make equitable contributions.

I'd like to share with you two quotations that capture the need for structural change in the developing, debtor nations.

First:

"The only way to overcome our economic crisis is to tackle at their root the structural problems of our economy to make it more efficient and productive."

And second:

"Economic growth will have solid foundations only if we reestablish trust and stimulate private enterprise, which must be the flagship of our economic development.... We will promote authentic institutional change in the economic sector."

These are not my words, as Secretary of the Treasury. They are statements made independently in July of this year by the Presidents of Mexico and Brazil.

The cornerstone of sustained growth for the African nations must be the operation of the free market. Macroeconomic and structural policies which improve economic efficiency, mobilize domestic resources (such as the tourist trade), and provide incentives to work, save, and invest domestically will create the favorable economic environment necessary for this to occur.

So let me refocus our attention on the specific issue that brought us all together here tonight -- preserving the natural environment, both for economic reasons as well as esthetic ones. In the United States since World War II demand for land for development has increased as the population has grown. The pressure on available wilderness land triggered an environmental revolution in the late 1960s and the early '70s.

According to environmentalist Rice Odell, "Population was growing inexorably; pollution was increasing dangerously; land was being desecrated relentlessly. At some point, these excesses were bound to reach the limits of political endurance." Sounds like a description of the African case, doesn't it? But Odell was describing the political pressures that led to the Wilderness Act of 1964 -- the legislation that established today's classification and management of our wilderness heritage.

So it is very clear that wildlife is both a critical economic and social resource, hardpressed as it is by population and agricultural pressures. But wildlife is part of a heritage that blesses every continent on earth. To preserve this heritage will require the hard work and the ingenious solutions of all of us. My hat is off to all of you for the help you are providing to Africans so that they can develop their own solutions.

Ladies and gentlemen, I have a favorite saying. It goes like this. Destiny is not a matter of chance, it is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved.

Well, the way I see it, we have an obligation to make the choice and achieve. I've tried to live by the principle that we have not inherited the earth from our fathers but are borrowing it from our children. Thank you or as they say in East Africa, asante.

TREASURY NEWS

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FOR RELEASE ON
October 18, 1985

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FIRST STATUE OF LIBERTY GOLD AND SILVER COINS
STRUCK IN NEW YORK AND CALIFORNIA

Secretary of Treasury, James A. Baker, III today personally struck the first STATUE OF LIBERTY $5 gold commemorative coin, one of three commemorative coins that were authorized by Congress to be produced by the United States Mint. Mintage of these coins is authorized by Public Law 99-61, sponsored by Congressman Frank Annunzio of Illinois, adopted by Congress and signed into law by the President on July 9, 1985. Surcharges from the sale of these coins will be used for the restoration and renovation of the Statue of Liberty and Ellis Island, and for establishing an endowment fund for the future maintenance of the monuments.

At the U.S. Bullion Depository at West Point, New York, Secretary Baker struck the 90% gold, $5 coins before a group of distinguished guests and U.S. coinage experts who were on hand to show their support of the program. Joining him in striking additional gold coins at West Point were Lee A. Iacocca, Chairman of the Statue of Liberty-Ellis Island Centennial Commission; Katherine D. Ortega, Treasurer of the United States; Donna Pope, Director of the United States Mint; and Congressman Frank Annunzio.

After striking the first coins at West Point, Secretary Baker by telephone gave the signal to the Deputy Director of the United States Mint, Eugene Essner, at the U.S. Assay Office in San Francisco to strike the first State of Liberty silver $1 coin and clad half dollar coin.

The coin production that began today will continue through 1986 at U.S. Mint facilities in West Point, San Francisco, Denver, and Philadelphia.

The simultaneous striking ceremonies provided those present with their first look at the designs for the new coins.

B-317

The $5 gold coin, which contains .242 troy ounces gold, was designed by Elizabeth Jones, Chief Sculptor Engraver of the United States.

The obverse of the $1 silver coin, which contains .77 troy ounces silver, was designed by Mint Sculptor Engraver John Mercanti. The reverse of the silver dollar was designed by Mint Sculptor Engraver Mathew Peloso.

The cupronickel half dollar obverse was designed by Mint Sculptor Engraver Edgar Z. Steever. The reverse was designed by Mint Sculptor Engraver Sherl J. Winter.

Sales will include a surcharge of $35 for each Gold coin, $7 for each Silver coin, and $2 for each half dollar coin. This surcharge will be given to the foundation for restoration of the Statue of Liberty-Ellis Island. Prices of the coins will range from $6.00 for the clad half dollar to $439.50 for the six coin set in a cherrywood presentation case. Additional price information and ordering instructions will be distributed during the first week in November to customers on the U.S. Mint's mailing list and to contributors to the Statue of Liberty Foundation.

Others interested in receiving order forms should write to the following address in order to receive the early November mailing from the Mint.

The United States Mint
U.S. Liberty Coin Program
633 3rd Street N.W.
Washington, D.C. 20220

Pre-issue discounts will be given in orders received from November 1, 1985 to December 31, 1985. Coins will be shipped to fill individual orders in January 1986.

Consignment sales to financial institutions are scheduled to begin in April 1986. Bulk sales to domestic and international dealers are also scheduled to begin in April 1986.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. October 17, 1985

TREASURY TO AUCTION $9,250 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $9,250 million of 2-year notes to refund $8,120 million of 2-year notes maturing October 31, 1985, and to raise about $1,125 million new cash. The $8,120 million of maturing 2-year notes are those held by the public, including $738 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $942 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.

Due to the public debt limit and Treasury's need to plan for the debt level on October 31, additional amounts of the notes will not be issued to Federal Reserve Banks as agents for foreign and international monetary authorities in this auction.

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

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED OCTOBER 31, 1985

October 17, 1985

Amount Offered:	
To the public	$9,250 million
Description of Security:	
Term and type of security	2-year notes
Series and CUSIP designation	AB-1987 (CUSIP No. 912827 ST 0)
Maturity Date	October 31, 1987
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 institution	Acceptable
Key Dates:	
Receipt of tenders	Wednesday, October 23, 1985, prior to 1:00 p.m., EDST
Settlement (final payment due from institutions)	
a) cash or Federal funds	Thursday, October 31, 1985
b) readily-collectible check ..	Tuesday, October 29, 1985

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

FOR IMMEDIATE RELEASE October 18, 1985

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of August 1985.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $152.9 billion on August 31, 1985, posting a decrease of less than $0.1 billion from the level on July 31, 1985. This net change was the result of an increase in holdings of agency assets of $0.2 billion, a decline of $0.2 billion in holdings of agency-guaranteed debt and a decline of less than $0.1 billion in holdings of agency debt during the month. FFB made 267 disbursements during August.

Attached to this release are tables presenting FFB August loan activity and FFB holdings as of August 31, 1985. FFB did not enter into any new commitments during August.

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FEDERAL FINANCING BANK

AUGUST 1985 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					
Advance #496	8/1	$ 50,000,000.00	8/8/85	7.645%	
Advance #497	8/5	268,000,000.00	8/12/85	7.665%	
Advance #498	8/8	232,000,000.00	8/15/85	7.535%	
Advance #499	8/12	269,000,000.00	8/20/85	7.515%	
Advance #500	8/15	204,000,000.00	8/23/85	7.445%	
Advance #501	8/20	14,000,000.00	8/26/85	7.475%	
Advance #502	8/20	238,000,000.00	8/28/85	7.475%	
Advance #503	8/23	181,000,000.00	8/28/85	7.385%	
Advance #504	8/28	31,000,000.00	9/1/85	7.405%	
Advance #505	8/28	150,000,000.00	9/2/85	7.405%	
Advance #506	8/28	91,000,000.00	9/3/85	7.405%	
Advance #507	8/28	164,000,000.00	9/6/85	7.405%	
Advance #508	8/31	139,000,000.00	9/6/85	7.495%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #344	8/1	9,550,000.00	10/29/85	7.645%	
+Note #345	8/7	15,000,000.00	11/5/85	7.625%	
+Note #346	8/12	1,369,000.00	11/13/85	7.535%	
Note #347	8/14	250,000.00	11/13/85	7.495%	
+Note #348	8/14	7,750,000.00	11/13/85	7.495%	
+Note #349	8/19	900,000.00	9/18/85	7.455%	
+Note #350	8/21	500,000.00	11/19/85	7.475%	
+Note #351	8/23	29,200,000.00	11/21/85	7.385%	
AGENCY ASSETS					
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership					
	8/4	78,000,000.00	8/1/90	10.215%	10.476% ann.
	8/12	75,000,000.00	8/1/95	10.495%	10.770% ann.
	8/24	100,000,000.00	8/1/00	10.485%	10.760% ann.
	8/25	12,000,000.00	8/1/90	9.795%	10.035% ann.
	8/25	73,000,000.00	8/1/95	10.265%	10.528% ann.
	8/27	35,000,000.00	8/1/05	10.745%	11.034% ann.
GOVERNMENT - GUARANTEED LOANS					
DEPARTMENT OF DEFENSE					
Foreign Military Sales					
Jordan 10	8/2	6,215,746.15	3/10/92	9.829%	
Jordan 11	8/2	12,150.60	11/15/92	9.525%	
Liberia 10	8/2	47,896.15	5/15/95	10.607%	
Morocco 11	8/2	7,409.54	9/8/95	10.615%	
Egypt 6	8/9	178,878.70	4/15/14	10.815%	
Egypt 7	8/9	1,136,145.17	7/31/14	10.865%	
El Salvador 7	8/14	105,951.78	6/10/96	10.625%	
Morocco 11	8/16	73,202.20	9/8/95	10.465%	
Morocco 13	8/16	12,327.83	5/31/96	10.135%	
Greece 14	8/20	56,950.80	4/30/11	10.745%	
Bolivia 2	8/21	319,069.00	11/22/95	10.272%	
Egypt 7	8/21	1,566,229.60	7/31/14	10.655%	
Greece 15	8/21	1,314,000.00	6/15/12	10.455%	
Egypt 7	8/22	491,339.42	7/31/14	10.585%	
Greece 15	8/22	14,811.49	6/15/12	10.355%	
Jordan 10	8/22	931,914.85	3/10/92	9.952%	

+rollover

FEDERAL FINANCING BANK

AUGUST 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
Foreign Military Sales (Cont'd)					
Jordan 11	8/22	$ 50,000.00	11/15/92	9.195%	
Turkey 13	8/23	134,827.00	3/24/12	10.605%	
Jordan 10	8/26	535,200.00	3/10/92	10.080%	
Niger 2	8/26	258,433.26	10/15/90	8.170%	
Turkey 17	8/20	1,661,880.00	11/30/13	10.415%	
Turkey 17	8/28	2,246,786.77	11/30/13	10.402%	
Indonesia 10	8/30	889,200.00	3/20/93	9.315%	
Spain 5	8/30	476,754.65	6/15/91	9.745%	
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development					
Lynn, MA	8/1	85,591.72	8/15/85	7.645%	
*Provo, UT	8/1	3,557,417.00	8/1/90	9.567%	9.796% ann.
Woonsocket, RI	8/1	5,110.15	8/1/86	8.245%	8.415% ann.
*Long Beach, CA	8/1	6,162,255.00	8/1/89	9.502%	9.728% ann.
*Mayaguez, PR	8/1	482,000.00	8/1/87	9.140%	9.349% ann.
*Ponce, PR	8/1	1,202,077.00	8/1/91	9.915%	10.161% ann.
*Newburgh, NY	8/1	255,000.00	8/1/89	9.925%	10.171% ann.
Newport News, VA	8/5	23,973.00	2/15/86	8.035%	8.052% ann.
Detroit, MI	8/5	168,401.00	9/1/85	7.665%	
Chicago, IL	8/8	400,000.00	8/15/04	10.811%	11.103% ann.
Westland, MI	8/8	202,149.75	10/1/85	7.535%	
Detroit, MI	8/13	3,436,792.64	9/1/85	7.445%	
Seaside, CA	8/14	833,700.00	2/15/86	7.875%	7.877% ann.
*Simi Valley, CA	8/15	2,000,000.00	8/15/91	9.769%	10.008% ann.
*Lynn, MA	8/15	899,687.38	8/15/91	9.769%	10.008% ann.
Birmingham, AL	8/20	294,500.00	9/1/03	10.474%	10.748% ann.
Yonkers, NY	8/20	350,000.00	12/15/85	7.595%	
Bellflower, CA	8/26	400,000.00	10/1/86	8.175%	8.342% ann.
Malden, MA	8/26	500,000.00	8/1/86	7.985%	8.133% ann.
Indianapolis, IN	8/28	100,000.00	2/1/86	7.545%	
+Detroit, MI	8/30	20,968,660.83	9/3/85	7.395%	
DEPARTMENT OF THE NAVY					
Defense Production Act					
Gila River Indian Community	8/14	283,987.16	10/1/92	10.014%	9.892% qtr.
RURAL ELECTRIFICATION ADMINISTRATION					
Saluda River Electric #186	8/1	996,000.00	12/31/19	10.878%	10.734% qtr.
*S. Mississippi Electric #171	8/2	7,375,000.00	8/3/87	9.165%	9.062% qtr.
*Taconic Telephone #21	8/5	2,479,750.00	1/3/17	10.927%	10.782% qtr.
*S. Mississippi Electric #3	8/5	6,000.00	12/31/10	10.848%	10.705% qtr.
*S. Mississippi Electric #171	8/5	2,891,000.00	8/5/87	9.275%	9.170% qtr.
*Saluda River Electric #186	8/5	1,820,227.80	12/31/15	10.961%	10.815% qtr.
N.E. Mississippi Electric #217	8/6	1,227,000.00	8/6/87	9.255%	9.150% qtr.
Central Electric #131	8/7	62,000.00	8/7/87	9.255%	9.150% qtr.
KEPCO #282	8/7	660,000.00	12/31/15	10.961%	10.815% qtr.
Wolverine Power #274	8/8	379,000.00	9/30/87	9.245%	9.141% qtr.
*Western Illinois Power #225	8/8	16,548,000.00	1/2/18	10.886%	10.742% qtr.
Basin Electric #232	8/12	16,793,000.00	12/3/85	7.635%	7.591% qtr.
Central Electric #278	8/12	472,000.00	9/30/87	9.108%	9.007% qtr.
*Colorado Ute Electric #71	8/12	1,045,000.00	8/12/87	9.075%	8.974% qtr.
*Colorado Ute Electric #168	8/12	441,426.00	8/12/87	9.075%	8.974% qtr.
*Wolverine Valley Power #101	8/12	350,000.00	8/10/88	9.425%	9.317% qtr.
*Wolverine Valley Power #101	8/12	20,000.00	12/31/12	10.787%	10.645% qtr.
*Wabash Valley Power #104	8/12	3,808,000.00	8/12/87	9.075%	8.974% qtr.
*Wolverine Valley Power #182	8/12	2,004,000.00	8/10/88	9.425%	9.317% qtr.
*Wolverine Valley Power #183	8/12	2,533,000.00	8/10/88	9.425%	9.317% qtr.
*Wabash Valley Power #206	8/12	7,193,000.00	8/12/87	9.075%	8.974% qtr.

*maturity extension
+rollover

FEDERAL FINANCING BANK

AUGUST 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)					
*Wolverine Valley Power #234	8/12	$ 4,931,000.00	8/12/87	9.075%	8.974% qtr.
*Western Electric Power #162	8/12	2,761,000.00	12/31/15	10.782%	10.640% qtr.
*Kansas Electric #216	8/12	1,050,000.00	12/31/16	10.779%	10.638% qtr.
*French Broad Electric #245	8/12	613,000.00	12/31/17	10.776%	10.635% qtr.
Corn Belt Power #292	8/13	257,000.00	9/30/87	9.115%	9.013% qtr.
*United Power #159	8/15	20,042,000.00	12/31/14	10.793%	10.651% qtr.
*Oglethorpe Power #74	8/15	7,846,000.00	12/31/15	10.789%	10.647% qtr.
*Oglethorpe Power #74	8/15	12,074,000.00	12/31/15	10.789%	10.647% qtr.
*Oglethorpe Power #150	8/15	5,400,000.00	12/31/15	10.789%	10.647% qtr.
*Oglethorpe Power #150	8/15	1,768,000.00	12/31/15	10.789%	10.647% qtr.
New Hampshire Electric #270	8/15	688,000.00	1/2/18	10.782%	10.640% qtr.
Associated Electric #132	8/15	10,945,000.00	8/15/87	9.095%	8.994% qtr.
Deseret G&T #211	8/16	20,364,000.00	8/17/87	9.085%	8.984% qtr.
East Kentucky Power #140	8/16	1,000,000.00	1/2/18	10.773%	10.632% qtr.
*Vermont Electric #193	8/19	2,023,000.00	8/19/87	9.035%	8.935% qtr.
*Cooperative Power #156	8/19	2,000,000.00	8/19/87	9.035%	8.935% qtr.
*Sam Rayburn G&T #228	8/20	53,500,000.00	1/3/17	10.650%	10.512% qtr.
*Cajun Electric #180	8/21	30,000,000.00	12/31/15	10.623%	10.486% qtr.
*Big Rivers Electric #58	8/21	3,426,000.00	12/31/12	10.621%	10.484% qtr.
*Big Rivers Electric #91	8/21	1,948,000.00	12/31/12	10.621%	10.484% qtr.
*Big Rivers Electric #143	8/22	775,000.00	1/2/18	10.577%	10.441% qtr.
*Big Rivers Electric #179	8/22	1,650,000.00	1/2/18	10.577%	10.441% qtr.
*Soyland Power #226	8/22	26,027,000.00	1/2/18	10.577%	10.441% qtr.
Oglethorpe Power #246	8/22	17,743,000.00	12/31/19	10.574%	10.438% qtr.
*United Power #67	8/22	900,000.00	1/3/17	10.578%	10.442% qtr.
*United Power #129	8/22	10,800,000.00	1/3/17	10.578%	10.442% qtr.
*United Power #139	8/22	3,493,000.00	1/3/17	10.578%	10.442% qtr.
*Colorado Ute Electric #203	8/23	1,125,000.00	8/24/87	8.935%	8.837% qtr.
*S. Mississippi Electric #3	8/23	125,000.00	12/31/10	10.389%	10.257% qtr.
*S. Mississippi Electric #90	8/23	822,000.00	12/31/12	10.412%	10.280% qtr.
KEPCO #282	8/26	450,000.00	12/31/15	10.576%	10.440% qtr.
Brazos Electric #230	8/26	1,696,000.00	12/31/19	10.575%	10.439% qtr.
*Wolverine Power #191	8/26	149,000.00	8/26/88	9.325%	9.219% qtr.
*East Kentucky Power #188	8/26	2,263,000.00	12/31/15	10.581%	10.445% qtr.
*Sho-Me Power #164	8/26	500,000.00	12/31/17	10.578%	10.442% qtr.
*Central Electric #128	8/27	1,803,000.00	8/27/87	9.005%	8.906% qtr.
*Upper Missouri G&T #172	8/28	185,000.00	8/28/87	8.935%	8.837% qtr.
*United Power #67	8/29	200,000.00	12/31/14	10.579%	10.443% qtr.
*United Power #86	8/29	2,150,000.00	12/31/14	10.579%	10.443% qtr.
*United Power #122	8/29	2,000,000.00	12/31/14	10.579%	10.443% qtr.
*United Power #129	8/29	9,300,000.00	12/31/14	10.579%	10.443% qtr.
*North Carolina Electric #268	8/29	4,590,000.00	9/30/87	9.035%	8.935% qtr.
*M&A Electric #111	8/29	1,350,000.00	8/29/87	8.975%	8.877% qtr.
*Kamo Electric #209	8/29	667,000.00	1/2/18	10.572%	10.436% qtr.
Colorado Ute Electric #203	8/30	517,000.00	8/31/87	8.945%	8.847% qtr.
Colorado Ute Electric #276	8/30	1,189,000.00	9/30/87	8.984%	8.885% qtr.
Deseret G&T #211	8/30	17,414,000.00	8/31/87	8.945%	8.847% qtr.
Plains Electric #300	8/30	733,000.00	9/30/87	8.966%	8.868% qtr.
*Associated Electric #132	8/30	15,000,000.00	12/31/13	10.540%	10.405% qtr.
*Associated Electric #132	8/30	9,600,000.00	12/31/13	10.540%	10.405% qtr.
*Associated Electric #132	8/30	14,200,000.00	12/31/13	10.540%	10.405% qtr.
*Associated Electric #132	8/30	11,950,000.00	12/31/13	10.540%	10.405% qtr.
*Associated Electric #132	8/30	8,000,000.00	12/31/15	10.537%	10.402% qtr.
*Associated Electric #132	8/30	8,000,000.00	12/31/15	10.537%	10.402% qtr.
*Associated Electric #132	8/30	7,000,000.00	12/31/15	10.537%	10.402% qtr.
*Associated Electric #132	8/30	10,000,000.00	12/31/15	10.537%	10.402% qtr.
*Associated Electric #132	8/30	9,000,000.00	12/31/15	10.537%	10.402% qtr.
SMALL BUSINESS ADMINISTRATION					
State & Local Development Company Debentures					
Columbia Cascade CDC	8/7	26,000.00	8/1/00	10.726%	
St. Louis County L.D.C.	8/7	32,000.00	8/1/00	10.726%	

*maturity extension

FEDERAL FINANCING BANK

AUGUST 1985 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)					
Enterprise Dev. Corp.	8/7	$ 37,000.00	8/1/00	10.726%	
Johnstown Area Reg. Indus. CDC	8/7	59,000.00	8/1/00	10.726%	
St. Louis Local Dev. Co.	8/7	61,000.00	8/1/00	10.726%	
Western Wisconsin Dev. Corp.	8/7	61,000.00	8/1/00	10.726%	
St. Louis County Local Dev. Co.	8/7	101,000.00	8/1/00	10.726%	
Massachusetts CDC	8/7	105,000.00	8/1/00	10.726%	
Neuse River Dev. Authority, Inc	8/7	140,000.00	8/1/00	10.726%	
Alabama Community Dev. Corp.	8/7	151,000.00	8/1/00	10.726%	
Wichita Area Dev., Inc.	8/7	160,000.00	8/1/00	10.726%	
Evergreen Community Dev. Assoc.	8/7	166,000.00	8/1/00	10.726%	
San Diego County LDC	8/7	169,000.00	8/1/00	10.726%	
Indiana Statewide CDC	8/7	170,000.00	8/1/00	10.726%	
Milwaukee Economic Dev. Corp.	8/7	304,000.00	8/1/00	10.726%	
Business Gr. Corp. of Georgia	8/7	367,000.00	8/1/00	10.726%	
New Haven Com. Invest. Corp.	8/7	420,000.00	8/1/00	10.726%	
Fort Worth Econ. Dev. Corp.	8/7	442,000.00	8/1/00	10.726%	
Boston Local Dev. Corp.	8/7	500,000.00	8/1/00	10.726%	
Nine County Development, Inc.	8/7	30,000.00	8/1/05	10.896%	
Indiana Statewide C.D.C.	8/7	32,000.00	8/1/05	10.896%	
Southern Dev. Council, Inc.	8/7	33,000.00	8/1/05	10.896%	
Com. Ec. Dev. Co. of Colorado	8/7	33,000.00	8/1/05	10.896%	
Columbus Countywide Dev. Corp.	8/7	42,000.00	8/1/05	10.896%	
Columbus Countywide Dev. Corp.	8/7	55,000.00	8/1/05	10.896%	
Commonwealth S.B.D. Corp.	8/7	56,000.00	8/1/05	10.896%	
E.C.I.A. Bus. Growth, Inc.	8/7	61,000.00	8/1/05	10.896%	
Com. Ec. Dev. Co. of Colorado	8/7	67,000.00	8/1/05	10.896%	
Santee-Lynches Reg. Dev. Corp.	8/7	73,000.00	8/1/05	10.896%	
Crater Development Company	8/7	75,000.00	8/1/05	10.896%	
Four Rivers Development, Inc.	8/7	76,000.00	8/1/05	10.896%	
Iowa Business Growth Company	8/7	82,000.00	8/1/05	10.896%	
Business Dev. Co. of Nebraska	8/7	84,000.00	8/1/05	10.896%	
Indiana Statewide C.D.C.	8/7	84,000.00	8/1/05	10.896%	
Charlotte Cert. Dev. Corp.	8/7	86,000.00	8/1/05	10.896%	
Cumberland Area Invest. Corp.	8/7	100,000.00	8/1/05	10.896%	
Opportunities Minnesota Inc.	8/7	102,000.00	8/1/05	10.896%	
Middlesex County CDC Co.	8/7	105,000.00	8/1/05	10.896%	
Metropolitan Gr. & Dev. Corp.	8/7	109,000.00	8/1/05	10.896%	
Corp. for E.D. in Des Moines	8/7	126,000.00	8/1/05	10.896%	
Columbus Countywide Dev. Corp.	8/7	130,000.00	8/1/05	10.896%	
Cincinnati LDC	8/7	141,000.00	8/1/05	10.896%	
East Boston LDC	8/7	147,000.00	8/1/05	10.896%	
Ft. Worth Ec. Dev. Corp.	8/7	151,000.00	8/1/05	10.896%	
Texas Cert. Dev. Co., Inc.	8/7	152,000.00	8/1/05	10.896%	
Crown Dev. Corp. of Kings Cnty	8/7	158,000.00	8/1/05	10.896%	
Metro Area Dev. Corp.	8/7	165,000.00	8/1/05	10.896%	
Region Eight Dev. Corp.	8/7	173,000.00	8/1/05	10.896%	
Indiana Statewide C.D.C.	8/7	180,000.00	8/1/05	10.896%	
Centralina Dev. Corp., Inc.	8/7	189,000.00	8/1/05	10.896%	
Indiana Statewide C.D.C.	8/7	205,000.00	8/1/05	10.896%	
Verd-Ark-Ca Dev. Corp.	8/7	225,000.00	8/1/05	10.896%	
Bay Area Employment Dev. Co.	8/7	225,000.00	8/1/05	10.896%	
Long Island Dev. Corp.	8/7	230,000.00	8/1/05	10.896%	
Gold County CDC, Inc.	8/7	243,000.00	8/1/05	10.896%	
Gr. Spokane Bus. Dev. Assoc.	8/7	248,000.00	8/1/05	10.896%	
Neuse River Dev. Authority, Inc	8/7	250,000.00	8/1/05	10.896%	
Long Island Dev. Corp.	8/7	305,000.00	8/1/05	10.896%	
Alabama Community Dev. Corp.	8/7	308,000.00	8/1/05	10.896%	
Columbus Countywide Dev. Corp.	8/7	315,000.00	8/1/05	10.896%	
Massachusetts Cert. Dev. Corp.	8/7	336,000.00	8/1/05	10.896%	
Cert. Dev. Co. of Mississippi	8/7	363,000.00	8/1/05	10.896%	
Long Island Dev. Corp.	8/7	365,000.00	8/1/05	10.896%	
San Diego County L.D.C.	8/7	375,000.00	8/1/05	10.896%	
Opportunities Minnesota Inc.	8/7	395,000.00	8/1/05	10.896%	

FEDERAL FINANCING BANK

AUGUST 1985 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)					
Mid-Atlantic CDC	8/7	$ 403,000.00	8/1/05	10.896%	
Metro. Growth & Dev. Corp.	8/7	454,000.00	8/1/05	10.896%	
Massachusetts Cert. Dev. Corp.	8/7	462,000.00	8/1/05	10.896%	
Greater Southwest Kansas CDC	8/7	467,000.00	8/1/05	10.896%	
Metro. Growth & Dev. Corp.	8/7	500,000.00	8/1/05	10.896%	
Greater Salt Lake Bus. Dis.	8/7	500,000.00	8/1/05	10.896%	
Dallas Small Bus. Corp., Inc.	8/7	500,000.00	8/1/05	10.896%	
La Habra Local Dev. Co., Inc.	8/7	500,000.00	8/1/05	10.896%	
City of Spartanburg Dev. Corp.	8/7	49,000.00	8/1/10	10.956%	
Region Nine D.C. & Plan. Corp.	8/7	60,000.00	8/1/10	10.956%	
Warren Redev. & Planning Corp.	8/7	66,000.00	8/1/10	10.956%	
Centralina Dev. Corp., Inc.	8/7	74,000.00	8/1/10	10.956%	
Columbus Countywide Dev. Corp.	8/7	99,000.00	8/1/10	10.956%	
Old Colorado City Dev. Co.	8/7	105,000.00	8/1/10	10.956%	
No. VA Local Dev. Co., Inc.	8/7	110,000.00	8/1/10	10.956%	
Evergreen Community Dev. Assoc.	8/7	143,000.00	8/1/10	10.956%	
Hamilton County Dev. Co., Inc.	8/7	150,000.00	8/1/10	10.956%	
Wilmington Local Dev. Corp.	8/7	151,000.00	8/1/10	10.956%	
Tucson Local Dev. Corp.	8/7	155,000.00	8/1/10	10.956%	
San Diego County LDC	8/7	229,000.00	8/1/10	10.956%	
Charlotte Cert. Dev. Corp.	8/7	231,000.00	8/1/10	10.956%	
San Diego County LDC	8/7	237,000.00	8/1/10	10.956%	
Southern Dev. Council, Inc.	8/7	252,000.00	8/1/10	10.956%	
Corp. for B.A. in New Jersey	8/7	254,000.00	8/1/10	10.956%	
Tucson Local Dev. Corp.	8/7	255,000.00	8/1/10	10.956%	
La Habra Local Dev. Co., Inc.	8/7	271,000.00	8/1/10	10.956%	
Charlotte CDC	8/7	286,000.00	8/1/10	10.956%	
Railbelt Community Dev. Corp.	8/7	378,000.00	8/1/10	10.956%	
Greater Kenosha Dev. Corp.	8/7	427,000.00	8/1/10	10.956%	
E.D.F. of Sacramento, Inc.	8/7	500,000.00	8/1/10	10.956%	
Quaker State CDC, Inc.	8/7	500,000.00	8/1/10	10.956%	
Small Business Investment Company Debentures					
Chestnut Capital Int'l. II LP	8/21	2,000,000.00	8/1/88	9.305%	
Winfield Capital Corporation	8/21	300,000.00	8/1/88	9.305%	
Chestnut Capital Int'l. II LP	8/21	3,000,000.00	8/1/90	9.855%	
Grocers Sm. Bus. Inv. Corp.	8/21	1,000,000.00	8/1/90	9.855%	
Round Table Capital Corp.	8/21	500,000.00	8/1/90	9.855%	
Seafirst Capital Corporation	8/21	1,000,000.00	8/1/90	9.855%	
Western Financial Cap. Corp.	8/21	1,810,000.00	8/1/90	9.855%	
Chestnut Capital Int'l. II LP	8/21	5,000,000.00	8/1/92	10.215%	
Allied Investment Corp.	8/21	2,000,000.00	8/1/95	10.345%	
Brittany Capital Company	8/21	500,000.00	8/1/95	10.345%	
Clarion Capital Corporation	8/21	2,000,000.00	8/1/95	10.345%	
Clinton Capital Corporation	8/21	3,000,000.00	8/1/95	10.345%	
FAIC Capital Corporation	8/21	1,610,000.00	8/1/95	10.345%	
First SBIC of Alabama	8/21	550,000.00	8/1/95	10.345%	
Gill Capital Corporation	8/21	5,000,000.00	8/1/95	10.345%	
MVenture Corporation	8/21	1,000,000.00	8/1/95	10.345%	
Northeast Sm. Bus. Inv. Corp.	8/21	400,000.00	8/1/95	10.345%	
Pasadena Capital Corporation	8/21	1,500,000.00	8/1/95	10.345%	
Seafirst Capital Corporation	8/21	1,000,000.00	8/1/95	10.345%	
Seven States Energy Corporation					
+Note A-85-11	8/30	585,214,704.01	11/29/85	7.415%	

+rollover

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	August 31, 1985	July 31, 1985	Net Change 8/1/85-8/31/85	Net Change--FY 1985 10/1/84-8/31/85
On-Budget Agency Debt				
Tennessee Valley Authority	$ 14,455.0	$ 14,463.0	$ 8.0	$ 1,020.0
Export-Import Bank	15,728.8	15,728.8	-0-	38.9
NCUA-Central Liquidity Facility	225.8	225.2	0.6	-43.1
Off-Budget Agency Debt				
U.S. Postal Service	720.0	720.0	-0-	-367.0
U.S. Railway Association	73.8	73.8	-0-	22.5†
Agency Assets				
Farmers Home Administration	63,779.0	63,546.0	233.0	4,268.0
DHHS-Health Maintenance Org.	109.0	109.0	-0-	-7.1
DHHS-Medical Facilities	126.1	126.1	-0-	-5.8
Overseas Private Investment Corp.	6.1	6.1	-0-	-4.8
Rural Electrification Admin.-CBO	3,536.7	3,536.7	-0-	-0-
Small Business Administration	33.3	33.8	-0.6	-6.8
Government-Guaranteed Lending				
DOD-Foreign Military Sales	18,090.0	18,087.3	2.7	979.1
DEd.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loan Guarantees	-0-	12.4	-12.4	-6.2
DOE-Non-Nuclear Act (Great Plains)	1,138.0	1,536.0	-398.0	-151.1
DHUD-Community Dev. Block Grant	294.6	297.3	-2.7	86.4
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,146.2	2,146.2	-0-	-32.3
General Services Administration	408.6	408.6	-0-	-4.7
DOI-Guam Power Authority	35.6	35.6	-0-	-0.4
DOI-Virgin Islands	28.2	28.2	-0.1	-0.5
NASA-Space Communications Co.	887.6	887.6	-0-	-67.0
DON-Ship Lease Financing	1,003.2	1,003.2	-0-	1,003.2
DON-Defense Production Act	5.7	5.4	0.3	2.6
Oregon Veteran's Housing	60.0	60.0	-0-	60.0
Rural Electrification Admin.	21,462.5	21,364.1	98.4	875.4
SBA-Small Business Investment Cos.	1,010.8	980.5	30.4	150.5
SBA-State/Local Development Cos.	583.8	565.3	18.5	229.2
TVA-Seven States Energy Corp.	1,628.4	1,611.4	17.0	72.9
DOT-Section 511	153.6	153.6	-0-	-6.0
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	$ 152,940.9	$ 152,961.8	$ -20.9	$ 8,105.6

*figures may not total due to rounding
†reflects adjustment for capitalized interest

TREASURY NEWS

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

October 18, 1985

Roger M. Cooper Appointed Deputy Assistant Secretary
for Information Systems

Roger M. Cooper was appointed as Deputy Assistant Secretary for Information Systems for the Department of Treasury on September 23, 1985. His office oversees computer hardware and software, office automation, telecommunications support and imaging technologies.

Since 1982, Mr. Cooper had served in the Veterans Administration as Director of the Medical Information Resources Management Office.

From 1974 to 1982, Mr. Cooper worked for the Office of Personnel Management (OPM), and its predecessor, the U.S. Civil Service Commission. His responsibilities included Director of the Office of Automated Systems Development and directing the operation and management of the Federal Civil Service Retirement System.

Mr. Cooper held various positions in the United States Navy between 1964 to 1973. He was Chief, Automatic Data Processing (ADP) Section at the Deputy Chief of Naval Operations (AIR), and Director, Systems and Programming, Naval Security Station, Washington, D.C.

In the private sector, Mr. Cooper worked in ADP managerial positions with the California companies of Larwin Group, Inc. (1973-74), and for Ducommun, Inc.(1970-71).

Mr. Cooper holds a BS, an MSA in operations research, and an MBA from the University of California. He resides with his wife Erica in Alexandria, Virginia. He was born in Scottsbluff, North Dakota, on February 25, 1943.

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TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON   October 18, 1985

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $8,300 million of 364-day Treasury bills to be dated October 31, 1985, and to mature October 30, 1986 (CUSIP No. 912794 KS 2). This issue will not provide new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $8,259 million. 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 24, 1985.

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.

The bills will be issued for cash and in exchange for Treasury bills maturing October 31, 1985. In addition to the maturing 52-week bills, there are $14,294 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold $2,563 million as agents for foreign and international monetary authorities, and $4,413 million for their own account. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate of accepted competitive tenders. Due to the public debt limit and Treasury's need to plan for the debt level on October 31, additional amounts of the bills will not be issued to Federal Reserve Banks as agents for foreign and international monetary authorities in this auction. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-1.

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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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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

STATEMENT OF THE HONORABLE DAVID D. QUEEN
ACTING ASSISTANT SECRETARY (ENFORCEMENT & OPERATIONS)
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON CRIME
COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES

OCTOBER 17, 1985

Rewards for Information on Attacks Against Federal Law Enforcement Personnel

Mr. Chairman and members of the Committee:

I sincerely appreciate the opportunity to appear before you today. I am pleased to express the Treasury Department's support for the concept of providing legislation that would grant authority to pay rewards to citizens who provide information on the killing or kidnapping of specified Federal law enforcement personnel.

The concept of reward authority is a sound one: by encouraging those who possess information to come forward, we can expect that providing these rewards will aid in the administration of justice. Even more important, it will serve as a signal and a deterrent to the armed and vicious criminal element, who have demonstrated time and again that they will not hesitate to use deadly force against Federal law enforcement agents.

Mr. Chairman, I would like to commend you and the members of this Committee for taking up the subject of this legislation and for expressing a deep concern for the safety of the Federal officers involved. We welcome the opportunity to lend our assistance in the development of this legislation.

With regard to specific legislation, both of the bills before this Committee would fulfill the two basic purposes I have mentioned. However, it is Treasury's view that House of Representatives 2768, because of the refinements pointed out earlier by the Department of Justice and mentioned here today by Victoria Toensing, is a preferable version for a legislative measure of this type. Our chief objection to Senate 630 is that it would not extend the protection of the reward provision to all law enforcement officers who are now engaged in the war on drugs.

As this Committee is aware, three of Treasury's bureaus--the Internal Revenue Service, U.S. Customs and the Bureau of Alcohol, Tobacco and Firearms--have played major roles in our country's fight against drug-related and organized crime. Agents, inspectors and patrol officers from these bureaus are deeply involved in the war on drugs, many of them serving on the front lines against a vicious criminal underground. With great regularity, Customs agents intercept drug smuggling aircraft and vessels manned by armed and dangerous men. ATF confronts an equally dangerous adversary in going after the weapons violators involved in the drug trade. Our enemy is heavily armed, frequently with automatic weapons, and our officers must constantly face the threat that violence will erupt as they apprehend smugglers and other dangerous offenders.

We deeply regret that recently we have lost several law enforcement personnel in this struggle. Ariel Rios, an ATF special agent, was killed during an undercover operation in Miami on December 2, 1982. Another ATF agent, Alexander D'Atri, was seriously wounded in the same incident. Special Agent Eddie Benitez, also with the Bureau of Alcohol, Tobacco and Firearms, was killed in Miami in the line of duty on July 8, 1983. Over the years, Customs has also lost officers because of narcotics related violence.

Incidents such as these confirm the dangerousness of law enforcement missions. As a nation, we owe much to these officers, who are vital to our safety and well-being as a society. We owe it to them to do whatever we can to reduce the risk that attends their daily responsibilities. The reward authority would, in my opinion, further this cause.

Mr. Chairman, this concludes my formal testimony. I would be pleased to answer any questions that you and the members of the Committee may have.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 21, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $6,903 million of 13-week bills and for $6,917 million of 26-week bills, both to be issued on October 24, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 23, 1986			:	26-week bills maturing April 24, 1986		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.16%	7.39%	98.190	:	7.30%	7.69%	96.309
High	7.19%	7.42%	98.183	:	7.33%	7.72%	96.294
Average	7.18%	7.41%	98.185	:	7.32%	7.71%	96.299

Tenders at the high discount rate for the 13-week bills were allotted 13%.
Tenders at the high discount rate for the 26-week bills were allotted 2%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 148,530	$ 48,400	:	$ 167,010	$ 87,010
New York	25,362,080	5,869,950	:	16,684,755	5,497,635
Philadelphia	52,385	40,775	:	18,965	18,965
Cleveland	72,895	69,620	:	37,940	37,940
Richmond	107,305	49,905	:	83,810	54,210
Atlanta	49,795	48,795	:	49,205	33,325
Chicago	1,612,420	127,430	:	1,572,255	206,775
St. Louis	100,025	80,025	:	57,205	17,205
Minneapolis	41,415	13,675	:	27,740	16,760
Kansas City	71,620	63,620	:	105,940	105,940
Dallas	49,040	39,040	:	31,730	21,830
San Francisco	1,375,515	101,190	:	1,729,690	415,790
Treasury	350,635	350,635	:	403,390	403,390
TOTALS	$29,393,660	$6,903,060	:	$20,969,635	$6,916,775
Type					
Competitive	$26,544,260	$4,053,660	:	$18,293,325	$4,240,465
Noncompetitive	1,308,065	1,308,065	:	990,710	990,710
Subtotal, Public	$27,852,325	$5,361,725	:	$19,284,035	$5,231,175
Federal Reserve	1,213,435	1,213,435	:	1,200,000	1,200,000
Foreign Official Institutions	327,900	327,900	:	485,600	485,600
TOTALS	$29,393,660	$6,903,060	:	$20,969,635	$6,916,775

1/ Equivalent coupon-issue yield.

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TREASURY NEWS

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

STATEMENT OF THE HONORABLE
JAMES A. BAKER, III
SECRETARY OF THE TREASURY

BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
OCTOBER 22, 1985

Mr. Chairman, Members of the Committee:

I am pleased to have the opportunity to appear before you this morning to discuss the annual meetings of the International Monetary Fund and the World Bank. The recent report by your Subcommittee on International Development Institutions and Finance on Dealing with Debt, Rekindling Development contains a number of ideas that entered into our thinking before the meetings and provides solid evidence that the Congress and the Administration are close in their views on international financial issues.

For forty years, the International Monetary Fund and the World Bank have been focal points for the international community's effort to instill soundly based growth and development in the world economy. These two international financial institutions have compiled an impressive record of accomplishment, and the United States remains firmly committed to working with other members to maintain their strength and effectiveness.

During preparations for the annual meetings, it became clear to us, as to your Subcommittee, that the key issue before the world financial community was our ability to foster stronger, sustained growth in developing nations. Considerable progress has been made during the past three years in addressing the immediate debt servicing problems of the developing nations and in improving growth prospects in the industrial countries -- an essential foundation for growth in the developing world.

Indeed, since 1982 the aggregate current account deficit of the developing countries has been reduced by more than half; their growth rate has doubled; and their exports have improved dramatically. This progress is attributable to adjustment

measures within the developing countries themselves, economic recovery in the industrial nations, and financial support from the commercial banks and the international financial institutions. The case-by-case international debt strategy adopted three years ago has contributed significantly to this progress and, on balance, has worked very well.

However, problems have arisen in certain areas. These include the slippages in the domestic economic programs of several of the principal debtor nations, particularly with regard to their efforts to reduce inflation and to cut government budget deficits. Net new lending by the commercial banks has also declined abruptly, despite the significant improvement in current account positions, reflecting a growing reluctance by many banks to participate in new money and debt rescheduling packages. The decline in new lending to nations which are performing well is especially disturbing, since it undercuts both their ability and their resolve to pursue essential economic reforms.

These problems need to be addressed if progress is to be sustained. We must build upon, and strengthen, the current debt strategy, while continuing to tailor our approach to the particular circumstances of each individual country. Our approach must encompass greater emphasis by the debtor nations on policies which will improve growth prospects for the future, as well as enhanced policy and financial support from the international financial institutions and the banking community.

I proposed such an approach in my statement to the Joint IMF/World Bank Annual Meeting. Our three-point "Program for Sustained Growth" in the principal debtor nations constitutes, in essence, the "next phase" of the global debt strategy. It will require additional, concerted efforts to improve the prospects for growth in these nations, with long-term benefits for the entire global community.

I. The U.S. "Program for Sustained Growth"

Our proposed "Program for Sustained Growth" in the principal debtor nations incorporates three essential and mutually reinforcing elements:

> First and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment, and to reduce inflation;

> Second, a continued central role for the IMF, in conjunction with increased and more effective structural and sector adjustment lending by the multilateral development banks (MDBs); and

Third, increased lending by the private banks.

In short, we believe that there must be greater emphasis on both market-oriented economic policies to foster growth, and adequate financing to support it. The concerns we have addressed and the proposals we have made accord well with the ideas and recommendations in your Subcommittee's report. Permit me to expand briefly on the actions that would be required by each participant in this three-point approach.

(1) Action by Principal Debtors

An essential prerequisite to resolving the economic difficulties of the debtor countries is their adoption of sound fiscal, monetary, and exchange rate policies to reduce both external and domestic imbalances. For those countries which have implemented measures to address these imbalances, a more comprehensive set of policies can now be put in place, including both macroeconomic policies and longer-term supply-side, market oriented, policies to promote growth.

Sustained growth in these countries will depend in large measure on their ability to generate greater domestic savings, to encourage the investment of those savings at home, and to attract additional investment from abroad. In a number of these countries, domestic savings have been sent and held abroad rather than being used at home. In addition, restrictions on profit remittances have discouraged equity investment and increased reliance on foreign borrowing, which increases the debt service burden. And inefficient public sectors are absorbing resources which could be used more productively in the private sector.

As a practical matter, it is unrealistic to call upon the support of voluntary lending from abroad when domestic funds are moving in the other direction. Capital flight must be reversed if there is to be any real prospect of additional funding.

Policies to address these problems should include market-determined interest rates, wages and prices as well as further efforts to reduce inflation and budget deficits. We would also like to see:

- increased reliance on the private sector, with a reduction in role of governments in the economy, to help increase employment, production and efficiency;

- more supply-side actions to mobilize domestic savings and facilitate efficient investment, by means of tax reform, labor market reform and the development of financial markets; and

- greater emphasis on market-opening measures to encourage foreign direct investment and capital inflows, as well as to liberalize trade.

(2) Role of the International Financial Institutions

The IMF and the multilateral development banks have an important role to play in this process, through encouraging the needed policies in conjunction with their lending programs, as well as helping to catalyze private bank financing.

Our debt strategy has emphasized the need to reduce both external and domestic imbalances to help lay the basis for longer-term growth. This has required a strong central role for the IMF in the debt strategy. That central role should continue, as a means of encouraging needed policy changes and catalyzing capital flows. In some cases, the use of "enhanced surveillance" may provide a sound basis for catalyzing financing in support of good performers. In others, however, formal IMF programs with greater emphasis on supply-side factors should be implemented.

Increased coordination with the World Bank will also be needed, and it is appropriate that the MDBs also now play a stronger role in the enhanced debt strategy.

The World Bank has made a serious effort to spur growth and facilitate adjustment in a difficult economic environment. Loans to major debtor countries account for a significant share of IBRD lending. Fast-disbursing structural and sector adjustment lending have also increased, and the Bank has expanded its co-financing program to stimulate commercial flows that would not otherwise be available.

The IFC with its expanded capital base and the proposed Multilateral Investment Guarantee Agency can play important roles by improving the investment climate in developing countries and acting as catalysts for non-debt private equity flows. We believe the draft MIGA convention which we negotiated meets all our critical objectives and we intend to seek congressional approval for U.S. participation in the FY 87 budget process.

We believe the World Bank, and indeed all MDBs, have considerable scope to build on current programs and resources. There is ample room to expand the World Bank's structural and sector adjustment lending in support of growth-oriented policies, and institutional and sectoral reform. Since some of the most serious debt problems are found in Latin America, special emphasis should also be placed on strengthening the Inter-American Development Bank's policies to enable it to

be a more effective partner in support of growth-oriented structural reform. Appropriate debtor country performance standards would be a pre-requisite for increased MDB adjustment support.

We believe a serious effort to develop the programs of the World Bank and the IDB could raise their disbursements to principal debtors to an average of $9 billion annually in the period 1986-88. This would represent an increase of roughly 50 percent from the current annual level of nearly $6 billion.

Given the importance of increasing commercial bank flows to the principal debtors, efforts to expand the World Bank's co-financing operations should be pursued vigorously to help borrowers attract private finance.

(3) Action by Commercial Banks

If creditor governments are to be called on to support increases in MDB lending, and if recipient nations are asked to adopt sound economic policies for growth, then there must also be a corresponding commitment by the banking community to help support the principal debtor countries as they make the transition to stronger, sustained growth.

The commercial banks have rescheduled and rolled over nearly $200 billion in developing nations' debt since 1982. Net new bank lending to the principal debtor nations, however, has declined from about $25 billion in 1982 to only $4 billion in 1984.

This reluctance to participate in new money and debt rescheduling packages has introduced serious uncertainties for borrowers, in some cases making it more difficult for them to pursue economic reforms. Pledges of additional financing to support growth oriented policies are an essential part of a comprehensive growth program.

Our assessment of the commitment required by the banks to principal troubled debtors would be net new lending in the range of $20 billion for the next three years. In addition, countries now receiving adequate financing from commercial banks on a voluntary basis should continue to do so, provided that they maintain sound policies.

We would like to see the banking community pledge publicly to provide these amounts of new lending on the condition that the debtor countries also make similar growth-oriented policy commitments as their part of the cooperative effort.

If developing countries implement growth-oriented reform; if commercial banks provide adequate increases in net new lending to good performers; and if increased demand for quality IBRD lending demonstrates the need for increased World Bank capital resources, we would be prepared to look seriously at the timing and scope of a general capital increase.

Reaction to U.S. Proposal to Strengthen the Debt Strategy

It is clear that there are no easy solutions to the debt problem, and that the road ahead will be difficult and challenging.

The reaction to our proposal to strengthen the debt strategy has been positive and encouraging. Obviously, a proposal of this scope and magnitude will require further careful consideration by all interested parties. Nevertheless, I believe there is broad agreement -- among the industrial countries, the debtor countries, the international financial institutions, and the commercial banking community -- as to soundness of the U.S. approach. There is also a confluence of interest among the interested parties to accept their responsibilities and to work to put in place a workable program which will ease the financial constraints of the debtor countries while encouraging sustainable long-term economic growth.

Since we made our proposal in Seoul, Chairman Volcker and I have held consultations with senior officials of most of the major U.S. banks which have outstanding loans to the principal debtor nations. The U.S. banking community generally recognizes its interest and responsibility in supporting sustained growth in these nations. I am confident that it will do its part by significantly increasing net new lending. The precise mechanisms for doing so should be developed by the banks themselves, and I am sure there are a number of possibilites which they will be exploring. I would emphasize, however, that it is essential that banks from other countries -- who have an equally strong interest in these nations -- also participate in this exercise, and that their governments encourage similar efforts on their part.

Each of the principal debtor nations, in our view, should begin to consider comprehensive policy packages, which would be developed on a case-by-case basis with the support of the international financial institutions. I expect we will have further discussions with the IMF, the World Bank, and with some of the key countries involved regarding the possible nature of such programs and their willingness to move in this direction. Each country's program, of course, will need to reflect its individual needs and circumstances.

We are hopeful that the U.S. proposal provides renewed impetus for easing the debt problem, and we intend to continue working with all parties to help improve the climate for growth and stability in the world economy.

II. The Poorest Countries

Our efforts to strengthen the debt strategy have focussed on the principal debtors which have access to borrowing in the private markets. However, as your Subcommittee report stressed, there is another group of countries -- the very low-income developing nations, primarily in Sub-Saharan Africa -- which face severe economic difficulties and protracted balance of payments problems and are more dependent on official financing flows. Special efforts are being made to assist these countries, but more should be done to improve their longer-term prospects.

The United States believes that the $2.7 billion available from IMF Trust Fund reflows through 1991 present us with a unique opportunity to use IMF resources to provide a new significant stimulus for growth in the poorest countries.

We therefore proposed a new Trust Fund program using the reflows to provide concessional financing for these countries in support of comprehensive economic programs. The programs themselves would be designed to support growth-oriented adjustment through the adoption of sound macro-economic policies and by removing structural impediments to produce, save, and invest. This would require close Bank/Fund cooperation in the development and implementation of the program.

Other participants in the Seoul meeting clearly shared the United States desire to accord priority attention to the difficulties of the low-income countries. Consequently, the Interim Committee endorsed the U.S. view that Trust Fund reflows should be used to provide balance of payments support for low-income countries implementing programs promoting structural adjustment and growth. There was also a consensus on the importance of the Fund working in close collaboration with the World Bank.

However, the United States is prepared to consider a bolder approach, to encompass joint IMF and World Bank programs and financing to foster adjustment and catalyze additional sources of financing for these poorest countries. I noted that we were prepared to consider seeking resources in support of such a well-coordinated approach if other donors were also prepared to make equitable contributions.

However, a number of countries are concerned about the concept of joint Fund/Bank operations. Nevertheless, it is our assessment that such joint programs would be a major, practical step in ensuring consistent policy advice and coordinated financial support. We continue to believe that this approach has considerable merit.

We will be pursuing this idea in the weeks ahead. As understanding of the proposal increases, I believe that others will recognize that their initial concerns were unfounded and that this approach constitutes a realistic and effective means of addressing the problems of the poorest countries. We would hope for final agreement along these lines by the end of the year.

The International Development Association (IDA) is also of major importance to the poorest and least creditworthy countries. At a Special Meeting of IDA Deputies in Seoul, the United States and more than thirty other IDA donors agreed to continue working on an operational framework intended to increase the effectiveness of IDA lending. There was also agreement to begin negotiations on an eighth replenishment of IDA to fund operations in the period after July 1, 1987. The Administration will be consulting closely with the Congress on these important negotiations.

Conclusion

In summary, the Seoul meetings reinforced the international community's commitment to further action on the part of both developed and developing countries to promote sustained economic growth, to maintain necessary flows of capital, and to preserve and expand open markets.

The approaches recommended by the United States in Seoul have broad support and form a solid basis from which the international community will be able to respond positively to the difficult and complex debt problems we are likely to face over the next few years.

From this perspective, the Seoul meetings represented a timely and successful exercise of U.S. leadership in the international economic arena.

Mr. Chairman, I believe the proposals we made in Seoul accord well with a number of the key suggestions and ideas in your Subcommittee's report. The report and the series of hearings by your Subcommittee over the last seven months have made a notable contribution to fulfilling our common responsibilities. With an appreciation of your efforts, I look forward to our discussion today and to working closely with you in the weeks and months ahead on this Program for Sustained Growth. Thank you.

TREASURY NEWS

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STATEMENT OF THE HONORABLE
JAMES A. BAKER, III
SECRETARY OF THE TREASURY

BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
OCTOBER 23, 1985

Mr. Chairman, Members of the Committee:

I am pleased to have the opportunity to appear before you this morning to discuss the annual meetings of the International Monetary Fund and the World Bank and the U.S. proposals for strengthening the international debt strategy.

For forty years, the International Monetary Fund and the World Bank have been focal points for the international community's effort to instill soundly based growth and development in the world economy. These two international financial institutions have compiled an impressive record of accomplishment, and the United States remains firmly committed to working with other members to maintain their strength and effectiveness.

During preparations for the annual meetings, it became clear to us that the key issue before the world financial community was our ability to foster stronger, sustained growth in developing nations. Considerable progress has been made during the past three years in addressing the immediate debt servicing problems of the developing nations and in improving growth prospects in the industrial countries -- an essential foundation for growth in the developing world.

Indeed, since 1982 the aggregate current account deficit of the developing countries has been reduced by more than half; their growth rate has doubled; and their exports have improved dramatically. This progress is attributable to adjustment measures within the developing countries themselves, economic recovery in the industrial nations, and financial support from the commercial banks and the international financial institutions. The case-by-case international debt strategy adopted three years ago has contributed significantly to this progress and, on balance, has worked very well.

However, problems have arisen in certain areas. These include slippages in the domestic economic programs of several of the principal debtor nations, particularly with regard to their efforts to reduce inflation and to cut government budget deficits. Net new lending by the commercial banks has also declined abruptly, despite the significant improvement in current account positions, reflecting a growing reluctance by many banks to participate in new money and debt rescheduling packages. The decline in new lending to nations which are performing well is especially disturbing, since it undercuts both their ability and their resolve to pursue essential economic reforms.

These problems need to be addressed if progress is to be sustained. We must build upon, and strengthen, the current debt strategy, while continuing to tailor our approach to the particular circumstances of each individual country. Our approach must encompass greater emphasis by the debtor nations on policies which will improve growth prospects for the future, as well as enhanced policy and financial support from the international financial institutions and the banking community.

I proposed such an approach in my statement to the Joint IMF/World Bank Annual Meeting. Our three-point "Program for Sustained Growth" in the principal debtor nations constitutes, in essence, the "next phase" of the global debt strategy. It will require additional, concerted efforts to improve the prospects for growth in these nations, with long-term benefits for the entire global community.

I would like to discuss this proposal in some detail with you today.

The U.S. "Program for Sustained Growth"

Our proposed "Program for Sustained Growth" in the principal debtor nations incorporates three essential and mutually reinforcing elements:

First, and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment, and to reduce inflation;

Second, a continued central role for the IMF, in conjunction with increased and more effective structural and sector adjustment lending by the multilateral development banks (MDBs); and

Third, increased lending by the private banks.

In short, we believe that there must be greater emphasis on both market-oriented economic policies to foster growth, and adequate financing to support it. Permit me to expand briefly on the actions that would be required by each participant in this three-point approach.

(1) Action by Principal Debtors

An essential prerequisite to resolving the economic difficulties of the debtor countries is their adoption of sound fiscal, monetary, and exchange rate policies to reduce both external and domestic imbalances. For those countries which have implemented measures to address these imbalances, a more comprehensive set of policies can now be put in place, including both macro-economic policies and longer-term supply-side, market oriented, policies to promote growth.

Sustained growth in these countries will depend in large measure on their ability to generate greater domestic savings, to encourage the investment of those savings at home, and to attract additional investment from abroad. In a number of these countries, domestic savings have been sent and held abroad rather than being used at home. In addition, restrictions on profit remittances have discouraged equity investment and increased reliance on foreign borrowing, which increases the debt service burden. And inefficient public sectors are absorbing resources which could be used more productively in the private sector.

As a practical matter, it is unrealistic to call upon the support of voluntary lending from abroad when domestic funds are moving in the other direction. Capital flight must be reversed if there is to be any real prospect of additional external financing.

Policies to address these problems should include market-determined interest rates, wages and prices as well as further efforts to reduce inflation and budget deficits. We would also like to see:

- increased reliance on the private sector, with a reduction in role of governments in the economy, to help increase employment, production and efficiency;

- more supply-side actions to mobilize domestic savings and facilitate efficient investment, by means of tax reform, labor market reform and the development of financial markets; and

- greater emphasis on market-opening measures to encourage foreign direct investment and capital inflows, as well as to liberalize trade.

(2) Role of the International Financial Institutions

The IMF and the multilateral development banks have an important role to play in this process, through encouraging the needed policies in conjunction with their lending programs, as well as helping to catalyze private bank financing.

Our debt strategy has emphasized the need to reduce both external and domestic imbalances to help lay the basis for longer-term growth. This has required a strong central role for the IMF in the debt strategy. That central role should continue, as a means of encouraging needed policy changes and catalyzing capital flows. In some cases, the use of "enhanced surveillance" may provide a sound basis for catalyzing financing in support of good performers. In others, however, formal IMF programs with greater emphasis on supply-side factors should be implemented.

Increased coordination with the World Bank will also be needed, and it is appropriate that the MDBs also now play a stronger role in the enhanced debt strategy.

The World Bank has made a serious effort to spur growth and facilitate adjustment in a difficult economic environment. Loans to major debtor countries account for a significant share of IBRD lending. Fast-disbursing structural and sector adjustment lending have also increased, and the Bank has expanded its co-financing program to stimulate commercial flows that would not otherwise be available.

The IFC with its expanded capital base and the proposed Multilateral Investment Guarantee Agency can play important roles by improving the investment climate in developing countries and acting as catalysts for non-debt private equity flows. We believe the draft MIGA convention which we negotiated meets all our critical objectives and we intend to seek congressional approval for U.S. participation in the FY 87 budget process.

We believe the World Bank, and indeed all MDBs, have considerable scope to build on current programs and resources. There is ample room to expand the World Bank's structural and sector adjustment lending in support of growth-oriented policies, and institutional and sectoral reform. Since some of the most serious debt problems are found in Latin America, special emphasis should also be placed on strengthening the Inter-American Development Bank's policies to enable it to be a more effective partner in support of growth-oriented structural reform. Appropriate debtor country performance standards would be a pre-requisite for increased MDB adjustment support.

We believe a serious effort to develop the programs of the World Bank and the IDB could raise their disbursements to principal debtors to an average of $9 billion annually in the period 1986-88. This would represent an increase of roughly 50 percent from the current annual level of nearly $6 billion.

Given the importance of increasing commercial bank flows to the principal debtors, efforts to expand the World Bank's co-financing operations should be pursued vigorously to help borrowers attract private finance.

(3) Action by Commercial Banks

If creditor governments are to be called on to support increases in MDB lending, and if recipient nations are asked to adopt sound economic policies for growth, then there must also be a corresponding commitment by the banking community to help support the principal debtor countries as they make the transition to stronger, sustained growth.

The commercial banks have rescheduled and rolled over nearly $200 billion in these nations' debt since 1982. Net new bank lending to the principal debtor nations, however, has declined from about $25 billion in 1982 to only $4 billion in 1984.

This reluctance to participate in new money and debt rescheduling packages has introduced serious uncertainties for borrowers, in some cases making it more difficult for them to pursue economic reforms. Pledges of additional financing to support growth oriented policies are an essential part of a comprehensive growth program.

Our assessment of the commitment required by the banks to principal troubled debtors would be net new lending in the range of $20 billion for the next three years. In addition, countries now receiving adequate financing from commercial banks on a voluntary basis should continue to do so, provided that they maintain sound policies.

We would like to see the banking community pledge publicly to provide these amounts of new lending on the condition that the debtor countries also make similar growth-oriented policy commitments as their part of the cooperative effort.

U.S. regulatory agencies are on record as stating that, in appropriate circumstances, new lending can help to improve the quality of outstanding credit. In seeking a commitment from the commercial banks, I would especially ask their boards of directors to take a direct interest and a longer term view of the potential benefits. If the Program for Sustained Growth works, all the participants -- including the banks -- will be better off.

If it does not succeed, the banks as well as the borrowing countries will be worse off. So, too, will the economies of the major industrial countries.

If developing countries implement growth-oriented reform; if commercial banks provide adequate increases in net new lending to good performers; and if increased demand for quality IBRD lending demonstrates the need for increased World Bank capital resources, we would be prepared to look seriously at the timing and scope of a general capital increase.

Reaction to U.S. Proposal to Strengthen the Debt Strategy

It is clear that there are no easy solutions to the debt problem, and that the road ahead will be difficult and challenging.

The reaction to our proposal to strengthen the debt strategy has been positive and encouraging. Obviously, a proposal of this scope and magnitude will require further careful consideration by all interested parties. Nevertheless, I believe there is broad agreement -- among the industrial countries, the debtor countries, the international financial institutions, and the commercial banking community -- as to soundness of the U.S. approach. There is also a confluence of interest among the interested parties to accept their responsibilities and to work to put in place a workable program which will ease the financial constraints of the debtor countries while encouraging sustainable long-term economic growth.

Since we made our proposal in Seoul, Chairman Volcker and I have held consultations with senior officials of most of the major U.S. banks which have outstanding loans to the principal debtor nations. The U.S. banking community generally recognizes its interest and responsibility in supporting sustained growth in these nations. I am confident that it will do its part by significantly increasing net new lending.

The precise mechanisms for doing so should be developed by the banks themselves, and I am sure there are a number of possibilities which they will be exploring. I would emphasize, however, that it is essential that banks from other countries -- who have an equally strong interest in these nations -- also participate in this exercise, and that their governments encourage similar efforts on their part.

Each of the principal debtor nations, in our view, should begin to consider comprehensive policy packages, which would be developed on a case-by-case basis with the support of the international financial institutions. I expect we will have further discussions with the IMF, the World Bank, and with some of the key countries involved regarding the possible nature of such programs and their willingness to move in this direction. Each country's program, of course, will need to reflect its individual needs and circumstances.

We are hopeful that the U.S. proposal provides renewed impetus for easing the debt problem, and we intend to continue working with all parties to help improve the climate for growth and stability in the world economy.

The Poorest Countries

Our efforts to strengthen the debt strategy have focussed on the principal debtors which have access to borrowing in the private markets. However, there is another group of countries -- the very low-income developing nations, primarily in Sub-Saharan Africa -- which face severe economic difficulties and protracted balance of payments problems and are more dependent on official financing flows. Special efforts are being made to assist these countries, but more should be done to improve their longer-term prospects.

The United States believes that the $2.7 billion available from IMF Trust Fund reflows through 1991 present us with a unique opportunity to use IMF resources to provide a new significant stimulus for growth in the poorest countries.

We therefore proposed in Seoul a new Trust Fund program using the reflows to provide concessional financing for these countries in support of comprehensive economic programs. The programs themselves would be designed to support growth-oriented adjustment through the adoption of sound macro-economic policies and by removing structural impediments to produce, save, and invest. This would require close Fund/Bank cooperation in the development and implementation of the programs.

Other participants in the Seoul meeting clearly shared the United States desire to accord priority attention to the difficulties of the low-income countries. Consequently, the Interim Committee endorsed the U.S. view that Trust Fund reflows should be used to provide balance of payments support for low-income countries implementing programs promoting structural adjustment and growth. There was also a consensus on the importance of the Fund working in close collaboration with the World Bank.

However, the United States is also prepared to consider a bolder approach, to encompass joint IMF and World Bank programs and financing to foster adjustment and catalyze additional sources of financing for these poorest countries. I noted that we were prepared to consider seeking resources in support of such a well-coordinated approach if other donors were also prepared to make equitable contributions.

However, a number of countries are concerned about the concept of joint Fund/Bank operations. Nevertheless, it is our assessment that such joint programs would be a major, practical step in ensuring consistent policy advice and coordinated financial support. We continue to believe that this approach has considerable merit.

We will be pursuing this idea in the weeks ahead. As understanding of the proposal increases, I believe that others will recognize that their initial concerns were unfounded and that this approach constitutes a realistic and effective means of addressing the problems of the poorest countries. We would hope for final agreement along these lines by the end of the year.

The International Development Association (IDA) is also of major importance to the poorest and least creditworthy countries. At a Special Meeting of IDA Deputies in Seoul, the United States and more than thirty other IDA donors agreed to continue working on an operational framework intended to increase the effectiveness of IDA lending. There was also agreement to begin negotiations on an eighth replenishment of IDA to fund operations in the period after July 1, 1987. The Administration will be consulting closely with the Congress on these important negotiations.

Conclusion

In summary, the Seoul meetings reinforced the international community's commitment to further action on the part of both developed and developing countries to promote sustained economic growth, to maintain necessary flows of capital, and to preserve and expand open markets.

The approaches recommended by the United States in Seoul have broad support and form a solid basis from which the international community will be able to respond positively to the difficult and complex debt problems we are likely to face over the next few years.

From this perspective, the Seoul meetings represented a timely and successful exercise of U.S. leadership in the international economic arena.

Once again, Mr. Chairman, I would like to express my appreciation for this opportunity to appear before this Committee today, and I look forward to hearing your views on the issues which I have discussed. Thank you.

'REASURY NEWS

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

October 22, 1985

TREASURY LETTER ON DEBT CEILING

The attached letter was sent October 22, 1985 to all conferees appointed to House Joint Resolution 372.

THE SECRETARY OF THE TREASURY
WASHINGTON

October 22, 1985

Dear Dan:

As you participate in the conference on H.J. Res. 372 to increase the debt limit, I want to bring you up to date on where we stand and what actions Treasury will and will not take. We find ourselves in a position where continued Congressional inaction has moved the Treasury's position from sound financial management to unnecessary crisis management. I hope that a full explanation of our projections and intentions will allow responsible action to avoid costly continuation of this unseemly situation. By so acting, the United States will once again be able to raise funds to meet its lawful obligations without engaging in activities that erode confidence in our financial system.

Contrary to some assertions, Treasury's cash and debt projections and other information provided to the Congress since early September have been very accurate. In testimony on September 10, Treasury informed Congress that failure to pass a debt limit extension would result in our (1) reaching the debt ceiling and (2) becoming unable to invest fully several trust funds starting on September 30, with a consequent loss of interest to those funds. In a series of letters starting September 25, we warned Congress that our cash balances would be virtually exhausted on October 7, reaching a zero or negative balance on October 8. The testimony and letters predicted exactly what actually happened. In those same letters, we stated our strong reluctance to adopt the suggestion of Congressional staff that we use the Federal Financing Bank's non-debt-limit borrowing authority, calling such an action "unprecedented and questionable." We made clear, also, that if the Congress failed to act on the debt ceiling, we would have to choose between the FFB option and an unprecedented United States government default. Faced with Congressional inaction and the prospect of certain default on October 9, we used $5 billion of the FFB authority.

We have taken every action ever used by this Department to raise cash within the debt limit. Moreover, we have taken the additional step of using the FFB's borrowing authority to avoid default. These actions have not been without costs. Since September, the failure of Congress to increase the debt limit has resulted in non-investment of trust funds, costly delays of auctions, and uncertainty throughout the capital markets. Over $50 billion of financing that would otherwise have taken place over several months beginning in September is now confronting the markets. The uncertainty and delay will likely cost the American taxpayer millions of dollars.

Our current cash projections indicate that even if we use the remaining $10 billion FFB borrowing authority, we will have a negative balance on November 1, widening to a negative balance of over $5 billion by November 4. I intend to use the FFB borrowing authority, again reluctantly. But you should be aware that, subject to estimating error, it cannot get us through November 1. The negative numbers starting on November 4, moreover, are so large as to be outside the margin of error.

Some Members of Congress have suggested that, in order to provide Congress with yet more time, we should take the further extraordinary step of disinvesting trust funds (social security, military retirement, civil service retirement, and railroad retirement) in advance of payment of benefits to permit payment of those benefits starting November 1. (This option was not available on October 8, as October benefits had already been paid.) Taking this action will result in additional interest loss to the funds and further frustration of our financing schedule. Moreover, it may raise questions in the minds of present and future recipients of trust fund benefits--principally pensioners--about why they have become involved in the debt limit process. Nevertheless, having discussed this matter with the President and the Attorney General, we are reluctantly prepared to take this action on October 31 if Congress once again fails to act to resolve the debt limit impasse.

It is essential that Congress recognize that, even if trust funds were disinvested to avoid a November 1 default, we would certainly default on November 15 unless Congress acted before then to increase the debt limit. That default, which would involve reneging on the principal and interest of United States securities held by both Americans and foreigners, would have swift and severe domestic and international repercussions. No longer would investors view United States securities as riskfree, and a substantial financing price would have to be paid. Any increase in the benchmark Treasury rate would probably adversely affect general interest rates, with negative effects on both the deficit and the economy.

I have spent the past week reviewing the known legal and practical options and have concluded that there are no means available to avoid default that would not be a stark evasion of the debt limit statute--with the possible exception of the sale of United States gold holdings. The President and I are not prepared to take that step because it would undercut confidence here and abroad based on the widespread belief that the gold reserve is the foundation of our financial system, and because the Congress clearly has the power to prevent a default by assuming its responsibility with respect to the debt limit.

I sincerely hope you will take prompt action to avoid further exacerbation of this unnecessary and unfortunate situation.

Sincerely,

James A. Baker, III

The Honorable Dan Rostenkowski
Vice Chairman, Conference on H.J. Res. 372
House of Representatives
Washington, D. C. 20515

TREASURY NEWS

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

STATEMENT OF THE HONORABLE DAVID C. MULFORD
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

Washington, D.C.
October 23, 1985

The Group of Five Meeting and Announcement: Context and Perspective

Mr. Chairman, Members of the Committee:

I welcome this opportunity to present the Treasury Department's views on the important issues your Subcommittee has under consideration. I appreciate your interest in the September 22 announcement of the G-5 Finance Ministers and Central Bank Governors, and how it will work to reduce economic imbalances, at home and abroad.

The G-5 Announcement is important for several reasons. Most significant is the content of the Announcement itself and its positive implications for future economic policies and performance. It will promote sustained growth and adjustment of external imbalances among our countries. The Announcement also reflects close cooperation and consultations among the major industrial countries. Along with the President's trade policy action plan and our initiative in Seoul on the international debt strategy, it constitutes a key element in our efforts to address current international economic problems and their effects on the U.S. economy.

Three features of the Announcement should be highlighted:

1) it draws attention to changes already occurring in economic fundamentals here and abroad;

2) it affirms the strong prospects for continuing favorable changes in economic fundamentals;

3) it outlines the intentions of the G-5 governments to pursue additional, specific policies to sustain and accelerate the changes in economic performance and policies.

I will focus on these three areas in my testimony.

Evolution of U.S. Current Account Position and the Strong Dollar

Since our trade and current account deficits and the strength of the dollar exchange rate reflect the cumulative impact of a number of forces over the past few years, it is important first to examine how the present situation arose. In 1980, the beginning of the period of sustained dollar appreciation, the U.S. had a merchandise trade deficit of $26 billion. But we had a surplus on our services balance larger than our trade deficit, so the balance on goods and services -- the current account -- was in surplus by $2 billion. Over the period 1980-84 the trade deficit grew, reaching $108 billion on a balance of payments basis last year. At the same time the services surplus fell. As a result the current account shifted from surplus to deficit in 1982, and reached a deficit of $102 billion in 1984. Over this same period, end-1980 to end-1984, the dollar appreciated 41 percent on a trade-weighted basis against the major (G-10) foreign currencies. The dollar peaked against major foreign currencies on February 26, 1985.

Underlying this deterioration of our external accounts -- and the strong dollar -- were two fundamental factors:

-- strong economic performance in the U.S. relative to other major industrial countries; and

-- the LDC debt situation.

A. Disparities in Economic Performance

You are all well aware of the vigorous U.S. expansion and our strong gains in employment since 1982. The performance of our trading partners, however, was relatively weak over this period, coinciding with the period of dollar appreciation, mid-1980 to end-February 1985.

For example, at the end of 1984 industrial production in the United States was 11 percent higher than it was 4 years earlier, despite a year long recession in 1982. In contrast, industrial production in Europe at the end of 1984 was essentially unchanged from its 1980 level. There have also been stark performance differences in a broader measure of output -- real GNP. Our GNP in the fourth quarter of 1984 was 12 percent higher than during the recession's trough in 1982. Real GNP in the other major industrial countries rose only 7 percent over the same period and, in Europe alone, only 4 percent.

This was a reversal of historical trends. During the Sixties, the U.S. economy grew at an average annual rate of 4.2 percent; the rest of the industrial countries grew at a 6.2 percent rate. During the Seventies the growth gap narrowed. We grew 3.1 percent a year on average and our major partners grew 3.8 percent. During 1982-84, our relative growth rates reversed: we grew at an average 5.3 percent, while the other industrial countries grew 2.7 percent. Contrary to patterns in the late 1960s and 1970s when Japanese economic growth was appreciably stronger than that of the U.S., in 1983 and 1984 the U.S. economy expanded more rapidly than the Japanese economy.

U.S. inflation performance also improved markedly, relative to Europe, between 1980 and 1984. The U.S. inflation rate fell from 13.5 percent in 1980 to 4.3 percent in 1984, an improvement of over 9 percentage points. Inflation in the four major European countries fell from an average of 12.8 percent in 1980 to 5.9 percent in 1984, an improvement of 6.9 percentage points.

Why has U.S. performance been so strong relative to Europe in particular? The answer is found in the economic policies pursued by the Administration and Congress over the past five years. Anti-inflation efforts, deregulation, tax reductions, and a shift both in attitude and behavior towards free markets stimulated investment and increased rates of return to entrepreneurship. The dynamic and flexible environment produced by these policies is reflected in the creation of over 8-1/2 million jobs during the current expansion.

By contrast, European growth and job creation have been hampered by policies that have limited their economies' ability to adapt to changing economic circumstances. For example, an array of hiring and firing regulations and generous unemployment benefits have raised the cost to firms of taking on new workers and reduced the desire of workers to seek new jobs. Europe lost over half a million jobs during 1982-84 -- at a time of positive growth.

These differences in economic performance had a strong impact on the trade balance and the dollar over the past five years:

-- Stronger U.S. growth relative to our major trading partners resulted in strong U.S. import growth and weak export growth. As a rule of thumb, each one percent of U.S. GNP growth raises our imports by $9.5 billion; each one percent of growth by the other major countries increases U.S. exports by $4.5 billion.

-- With respect to Japan, a more important factor than the growth differential in our weak export growth has been the closed nature of Japan's tradeable goods sector. Solid expansion of Japanese GNP since 1980 has not produced much U.S. export growth.

-- U.S. investors looked at our strong economic performance, our stable political environment and our high after-tax

real rates of return on investment, in both absolute terms and relative to our trading partner countries, and decided to keep their money at home. Foreign investors found dollar assets attractive for similar reasons, and increased their investments in the U.S. Strong net capital inflows to the United States contributed to the appreciation of the dollar.

B. LDC Debt Situation

I mentioned earlier that the LDC debt situation was also a major element in our trade deficit and the strong dollar. In 1980, the non-OPEC LDCs accounted for nearly 30 percent of our exports. But as their external and domestic economic conditions deteriorated with the emergence of the international debt problem, their economic growth fell sharply. As you know, many of our Latin American trading partners have experienced particularly serious debt problems, with one of the results being that our exports to Latin America fell $16 billion between 1981 and 1983. Last year, as these debtor countries began to see the initial benefits of adjustment efforts, our exports to Latin America rose about $4 billion, recouping some of the lost exports. But our exports to Latin America still were $12 billion below the 1981 level, and our exports to all non-OPEC LDCs in 1984 were about $7 billion below the 1981 level.

Abstracting for a moment from the current situation gives us an idea of the impact that large growth differentials and the debt situation have had on our trade balance. If U.S. exports to LDCs had grown at a historically reasonable 8 percent per annum in the 1982-84 period instead of falling -- due to the debt situation -- then total U.S. exports would have been $25 billion higher than they were last year. By a similar calculation, our exports to Europe would also have been some $25 billion higher if their economies had experienced modest growth. In other words, if Europe had expanded more rapidly and the LDCs had not experienced a serious debt crisis, we would be discussing today a trade deficit of about $50 billion rather than the more than $100 billion recorded in 1984.

The debt situation also contributed to the stronger dollar, through its impact on the U.S. capital account. Between 1982 and 1984, net U.S. commercial bank lending swung from an outflow of $45 billion to an inflow of $23 billion. This large swing reflected in part the preference of U.S. banks to lend domestically rather than to LDCs after the debt problem emerged late in 1982. It is also likely that the sizeable difference between recorded U.S. net capital inflows and our current account deficit primarily reflects unrecorded capital flows from the developing world to the U.S. -- the safe haven factor. Poor domestic economic performance and a general lack of confidence in economic policies encouraged domestic investors in LDCs to send their money abroad.

C. The Strong Dollar

Up to this point, I have treated the trade deficit and the strong dollar as separate phenomena, both reflecting the common underlying factors of disparities in performance and the LDC debt situation. However, I recognize that the strong dollar has directly contributed to the deterioration in the trade balance by making our goods less price competitive abroad and foreign goods more price competitive here. We estimate that the appreciation of the dollar may have accounted for one third to one half of our trade balance deterioration.

I know many will argue that the dollar has been strong because of high U.S. interest rates. Undoubtedly, interest rates have been a factor underlying dollar strength over the past four years. But unlike the fundamental factors we have noted, the facts do not demonstrate a strong and consistent relationship between the strength of the dollar and interest rate developments over the period of dollar strength as a whole.

Changes in Fundamentals

Over the past several months the economic situation of the main industrial countries and some LDCs has changed significantly. But it has taken quite some time for these changes to become visible, and perhaps even longer for the accumulation of positive signs to become convincing as an indicator of durable changes.

The change has been to more moderate and therefore more sustainable U.S. growth; to higher growth abroad, including many developing countries; to a pattern of foreign growth more based on domestic sources of demand; and to lower inflation. Thus there has been economic convergence of the best sort: towards solid, sustainable real growth and low inflation. Let me be more specific about these points.

Last year the spread between the highest and lowest growth rates among the Five was 5.2 percentage points, with the United States far above the others. This year we expect the spread to narrow to 3-1/2 points, with the United States in the middle. Next year a further narrowing to a 2-1/2 point spread is projected. There is also a convergence in growth rates emerging between the industrial world and non-OPEC developing countries. After years of slow growth, LDCs grew over 4 percent last year, the best performance since 1980. We expect 3-1/2 to 4 percent aggregate growth in these countries for both this year and next.

Stronger growth in Europe is particularly noteworthy. After earlier export-led growth, investment demand has been picking up. In Germany, for example, we expect growth in real domestic demand to be double last year's rate. Real GNP grew at an annual rate in excess of 5-1/2 percent in the second quarter, according to figures released last month. And the tax reduction which will take effect starting in January 1986 should provide a strong boost to consumption spending. We are currently observing forecasters

reacting to these signs of strength by raising their growth projections. The UK is set to chalk up a strong rise in GDP this year, with private investment a major source of stimulus. GDP was up 4-1/2 percent (annual rate) in the second quarter.

In addition to a more positive picture for foreign growth which has recently emerged, inflation rates have been converging around a downward trend. The G-5 weighted average this year should be the lowest in nearly 20 years. The point spread is declining too. With the big improvement in France, the spread fell from 7-1/2 points in 1983 to 5 last year. It should be close to 4 points for 1985 and even less next year. This decline in inflation -- in other industrial countries too -- is gradually creating more optimism about prospects for continued lower inflation, particularly in countries earlier experiencing poor price performance.

Some of these changes were hard to see during the first half of this year. Aggregate real GNP in the seven Summit countries grew at a seasonally adjusted annual rate of only 0.3 percent in the first quarter, and included a sharp downturn in Germany and practically no growth in Japan. In contrast, the second quarter aggregate growth rate was nearly 4 percent. And of course the data showing higher GNP and industrial production were available only with considerable time lags.

Other elements of the picture were also changing. U.S. interest rates had been coming down sharply since the summer of 1984. U.S. monetary growth had accelerated. An agreement on a budget deficit reduction package was reached in August. The dollar had begun to decline substantially from its late winter peaks, and markets began to recognize the possibility of dollar decline. In market terms, one could say that the rising dollar was no longer a one-way street. Indeed, by July the foreign exchange markets had begun to recognize some of the early signs of a changing economic situation, which contributed to the rise of major foreign currencies against the dollar prior to the G-5 meeting. Between the February 26 dollar peak and September 20 the dollar fell 18 percent against the German mark and French franc, 9 percent against the yen and 24 percent against sterling.

At the G-5 meeting on September 22, Finance Ministers and Central Bank Governors recognized the improvement in convergence of favorable economic performance and policies, but noted that exchange rates were not fully reflective of changing economic fundamentals. Part of the reason for their Announcement was to draw attention to their analysis of the visible strengthening in foreign economic performance and prospects. In addition, it was agreed that policies here and abroad were the main force working to sustain this brighter picture. Without repeating all of the specific policy changes that took place before the September 22 Announcement, I would like to highlight a few: general reduction in interest rates, the two-stage German tax cuts, the liberalizing steps in French capital markets, UK proposals to reform wages councils so as to encourage employment, and Japanese plans to

strengthen domestic demand and new efforts to open markets for imports.

G-5 Policy Intentions

More importantly, each country agreed to make specific additional commitments to future policies which will strengthen the commitments to strong, noninflationary growth. The breadth, scope, and importance of these intentions can be demonstrated by a few examples:

-- The United States agreed to continue efforts to reduce government expenditures and implement fully the deficit reductions package for FY86. In this regard we support the major move by Congress to move toward a balanced budget by cutting spending. We also agreed to conduct monetary policy conducive to sustained growth and price stability;

-- The U.K. made a commitment to reduce the burden of taxation, in order to improve incentives and to increase the efficient use of resources in the economy.

-- Germany stated that the tax cuts due to take effect in 1986 and 1988 form part of the ongoing process of tax reform and reduction which the Federal Government will continue in a medium-term framework.

-- France agreed that it would take further steps towards liberalization and modernization of financial markets.

-- Japan agreed to efforts to stimulate domestic demand which will focus on increasing private consumption and investment through measures to enlarge consumer and mortgage credit markets. They indicated in addition that, within the framework of reducing the central government deficit and providing a pro-growth environment for the private sector, local governments may be favorably allowed to make additional investments. We welcome the package to promote domestic demand-led growth announced by the Japanese Government on October 15. This package, which provides greater access to consumer credit and promotes stronger private investment and expansion of public works projects, constitutes an important step in following-up on commitments made in the G-5 Announcement.

It was recognized at the G-5 meeting that these measures will promote better economic performance and greater convergence, which would contribute to a strengthening of non-dollar currencies and in turn to adjustment of the large trade imbalances among the major countries.

The G-5 Announcement of September 22 had an immediate, significant impact on exchange markets which continues to be positive, and reflects the importance of the commitments made. The dollar has fallen an additional 7 percent against the DM and French franc, about 9 percent against the yen and 4 percent against sterling.

The effect overall of this strengthening of foreign currencies from late February to date has been to reverse much of the long dollar run-up. About 55 percent of the dollar's rise against the DM between the end of 1980 and last February's peak has now been reversed, as has over 40 percent of the rise against the franc and sterling, and over 75 percent of the rise against the yen.

The decline of the dollar -- which is the counterpart of a strengthening of other currencies -- since the end of February has taken place under generally orderly market conditions, supporting our view that the exchange market was basically reacting to better prospects abroad rather than to any concerns about U.S. economic performance.

As a result of the confidentiality we were able to maintain during the three-month period of consultations leading to the September 22 meeting, the G-5 Announcement surprised the market and had a strong psychological effect. In accordance with our long-stated willingness to undertake coordinated intervention in instances where it is agreed that such intervention would be helpful or necessary, such intervention has been undertaken. While I cannot comment on the nature, timing, or amounts, I can assure you that there has been a high degree of cooperation and coordination among the various monetary authorities. We have developed clear, detailed procedures on how intervention operations might be conducted. We have not sought to establish target zones or target exchange rates. We are determined, however, to demonstrate our seriousness of intent over a prolonged period -- through policy actions as well as exchange market operations -- to help accelerate the convergence of economic performance among the major countries and further strengthen non-dollar currencies.

The Announcement also represents a major step forward in the process of multilateral surveillance and cooperation among the major industrial countries. It serves as a clear example of the willingness of governments to recognize the external effects of their policies and the need for active, ongoing consultations. The cooperative spirit reflects our deep-seated concerns about growing protectionist threats. The Announcement is a positive method of dealing with trade imbalances -- it focuses on economic fundamentals and policies. The implementation of protectionist policies would be a self-defeating, negative approach to resolving trade imbalances. Protectionism must be rejected.

Mr. Chairman, you have asked me to focus on the G-5 Announcement and its implication for the dollar and the trade deficit. However, I should note that the Announcement, while significant on its own merits, in its own right constitutes only a part of our overall approach to the range of issues affecting trade and the dollar.

Indeed, the Announcement itself has wider implications, especially for the LDC debt situation.

-- As part of the convergence process interest rates are down across-the-board. OECD interest rates are on average only half as high as four years ago. Dollar LIBOR interest rates, of key importance for variable interest rate LDC bank borrowings, have come down to levels below the 1978 average, prior to the late 1970s inflation and sharp run-up of LDC bank debt.

-- The Announcement emphasizes the crucial importance of resisting protectionism and keeping markets open, explicitly recognizing the implications for LDC adjustment efforts.

-- Sustained growth in industrial countries complements market openness in providing needed export demand for LDCs seeking to service debt and restore creditworthiness.

As Secretary Baker recently said at the annual meetings of the IMF and World Bank in Seoul,

"I am convinced that if each of the major industrial nations fulfills its policy intentions and maintains or improves access to its markets, we will have taken a major step toward more balanced and sustainable growth, while providing a solid framework for improving the debt situation in the developing world."

Conclusion

We believe the G-5 Announcement constitutes a broad-gauge approach to the fundamental determinants of U.S. trading performance and the value of the dollar. It addresses each of the factors I cited in my analysis of the causes of dollar strength and the trade deficit:

-- weak domestic demand in other industrial countries;

-- the LDC debt situation;

-- the slowness of currencies to reflect convergence.

It also stresses the importance of strengthening the open, liberal international economic system which is basic to our continued prosperity. This is a positive response to our problems, in contrast to the negative response of protectionism.

We recognize that the G-5 measures require time to implement and take full effect. However, the progress already visible on convergence of economic growth and inflation and developments in exchange markets gives us a good down payment.

The substantial dollar depreciation since last spring and closer convergence of U.S. and foreign growth rates makes our trade deficit forecast for 1986 $30 billion lower for the year as a whole than we would be forecasting if the exchange rate had remained at its February level and U.S. and foreign growth rates had held to the wider-gap scenario expected in March. By the fourth quarter of next year, the improvement on the trade account will be running at a $40-50 billion annual rate.

When fully effective, our various initiatives should provide even greater results.

Mr. Chairman, your letter of invitation asked what can we do to ensure maximum benefit from our efforts in the shortest time. I would like to suggest two areas where we need Congress' active participation:

-- fulfilling the U.S. policy intentions which were an integral part of the G-5 Announcement.

-- authorizing and appropriating quickly the $300 million war chest to combat predatory tied aid credits.

<u>In particular</u>, this means:

-- implementing the budget deficit reduction package;

-- enacting meaningful tax reform; and

-- resisting protectionism.

It is through these measures that you can make a direct, substantial contribution. I will be pleased to respond to your questions.

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FOR RELEASE AT 4:00 P.M. October 22, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 14,200 million, to be issued October 31, 1985. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $14,294 million. 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 time, Monday, October 28, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately $7,100 million, representing an additional amount of bills dated August 1, 1985, and to mature January 30, 1986 (CUSIP No. 912794 JQ 8), currently outstanding in the amount of $7,239 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $7,100 million, to be dated October 31, 1985, and to mature May 1, 1986 (CUSIP No. 912794 KD 5).

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.

The bills will be issued for cash and in exchange for Treasury bills maturing October 31, 1985. In addition to the maturing 13-week and 26-week bills, there are $8,250 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Tenders from Federal Reserve Banks for their own account 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 $ 2,446 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $2,556 million as agents for foreign and international monetary authorities, and $4,413 million for their own account. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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.

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FOR IMMEDIATE RELEASE October 23, 1985

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $9,257 million of $22,478 million of tenders received from the public for the 2-year notes, Series AB-1987, auctioned today. The notes will be issued October 31, 1985, and mature October 31, 1987.

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

	Yield	Price
Low	8.88%1/	99.991
High	8.92%	99.919
Average	8.90%	99.955

Tenders at the high yield were allotted 16%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 76,365	$ 60,340
New York	18,523,515	7,713,515
Philadelphia	46,705	45,865
Cleveland	275,725	209,885
Richmond	151,115	128,275
Atlanta	161,695	142,655
Chicago	1,453,905	435,625
St. Louis	149,285	129,285
Minneapolis	58,770	56,930
Kansas City	154,210	150,870
Dallas	22,425	22,425
San Francisco	1,393,325	150,465
Treasury	10,830	10,830
Totals	$22,477,870	$9,256,965

The $9,257 million of accepted tenders includes $1,436 million of noncompetitive tenders and $7,821 million of competitive tenders from the public.

In addition to the $9,257 million of tenders accepted in the auction process, $942 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

1/ Excepting 1 tender of $5,000.

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TREASURY NEWS

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STATEMENT OF THE HONORABLE
DAVID C. MULFORD
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

BEFORE THE
SUBCOMMITTEE ON AFRICAN AFFAIRS
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
OCTOBER 24, 1985

Madame Chairman and Members of the Subcommittee:

I welcome this opportunity to speak before you on the difficult economic and financial situation facing the countries of Sub-Saharan Africa. The Administration's concern for this region is evident from the size of our bilateral assistance program and the major emphasis we have placed on Africa in the lending programs of the multilateral development banks. It is also reflected in the new ideas Secretary Baker put forward at the Fund/Bank Annual Meetings in Seoul for enhanced IMF and World Bank assistance to the poorest debtor countries.

As we review the situation in Sub-Saharan Africa, one point is clear. The region is suffering from economic problems that took many years to develop and will require a long and difficult effort to correct. Nonetheless, this is an effort to which we are dedicated and we are hopeful that reform efforts now underway and the proposals we have recently advanced in Seoul represent a start toward their resolution.

Financial Outlook

Deputy Secretary Whitehead has already outlined for you the dimensions of the region's economic problems, and the factors which underlie them. For my part, I would like to focus on the financial outlook these countries will confront.

Looking ahead over the next few years, the dominant influence on Sub-Saharan Africa's economic performance will be the region's own economic reform efforts. However, given the weak economic situation of these countries, the availability of external finance will also have an important impact on their growth prospects. Treasury projections of net financial flows to the region indicate that financial constraints are likely to be an important factor in the region for the remainder of the decade.

Over the period 1985 to 1991, gross annual capital inflows are likely to remain flat while principal repayments on the debt built up in the 1972-82 period, including repayments to the

international financial institutions, rise sharply. The result will be to reduce projected net annual inflows during the period to roughly half the 1980-82 annual level. Even with continued generous official bilateral rescheduling, net inflows would be 30 percent below 1980-82 levels.

Implications for the Region

These very tight financial constraints point up the need for determined efforts at economic reform in order to improve economic performance and restore creditworthiness. Fortunately, a consensus has emerged among donors and many countries in the region that policy reform by Sub-Saharan African countries is a precondition for improvement in the region's economic situation, and that successful reform requires concerted support from donors. Furthermore, there is a growing awareness that improving the quality of external assistance is as important as its volume.

The multilateral institutions and donors are working together to design aid programs which will provide the greatest possible impetus for recovery and growth while recognizing the limitations posed by the region's relatively new institutions, limited technical manpower, and overall absorptive capacity.

Role of the Multilateral Institutions

You heard earlier this morning about U.S. bilateral efforts to support policy reform and renewed growth in the region. I would like to concentrate on the central role of the multilateral financial institutions, both the IMF and the multilateral development banks (MDBs), in supporting the recovery process in Sub-Saharan Africa. We look to the multilateral institutions, especially the IMF and the World Bank, to take the lead in formulating and promoting appropriate economic policies, and have been working closely with all the institutions to ensure that their resources are used wisely to support reform.

The World Bank

The World Bank is a major economic presence in Sub-Saharan Africa. The World Bank group provided $10 billion to the region between 1981 and 1985 for sound investment projects and to provide policy guidance and technical assistance. Despite these laudable efforts, however, economic deterioration has accelerated. Both Bank management and member governments have recognized that major changes are needed in the overall approach of the financial institutions and bilateral donors if the decline is to be halted.

The United States has worked closely with Management and other members to improve the effectiveness of the Bank's assistance efforts in Africa. We have supported Bank efforts to strengthen the administration and management of its African operations, and development of new lending instruments in response to the changing economic circumstances of its borrowers.

The principal new instrument is the Structural Adjustment Lending (SAL) program, which has provided valuable fast disbursing support for countries willing to implement programs of structural adjustment (10 SALs have been undertaken by six African countries since 1980). We have also supported less comprehensive sector adjustment loans for Sub-Saharan countries where institutional weaknesses hinder the design and implementation of more comprehensive reform programs, as long as effective conditionality is maintained. We have similarly welcomed the emphasis placed on encouraging policy reform under the Bank's Special Facility for Sub-Saharan Africa as supportive of our broader efforts in the Bank.

The United States has also taken a leading role in directing additional Bank group resources to the region. Recognizing the particular importance of concessional IDA funds to the poorest countries in Africa, the U.S. was successful in making Sub-Saharan Africa the highest priority for allocation of IDA resources. While the current 37 percent share of programming is a great improvement over the 26 percent share in FY 1980-81, we believe it should still go higher.

In the IFC, the United States was successful in gaining agreement to allocate a larger share of resources (24 percent) to Sub-Saharan Africa under the Corporation's new five-year program. The IFC will focus on promotional activities and small scale projects appropriate to the region's economic circumstances in order to strengthen the role of the private sector.

Finally, the U.S. looks to the World Bank to take the lead in coordinating the aid efforts of bilateral donors in Africa through its consultative group process. We are working to coordinate our bilateral assistance more closely with the World Bank and other donors and have in selected cases directly associated our aid with Bank policy reform programs in Africa.

In addition to supporting World Bank efforts, the U.S. has been a major supporter of the African Development Bank and Fund. This is the only institution dedicated solely to the development of Africa, and we would like to see it play a more important role in addressing the region's problems. The Bank and Fund committed $3.7 billion to the region over the FY 1980-84 period.

Role of the International Monetary Fund

The IMF has the primary responsibility for addressing the balance of payments problems afflicting Sub-Saharan Africa, and has played and will continue to play a major role in the region. IMF lending to Sub-Saharan countries increased significantly between 1980 and 1984, providing a total of $6.7 billion in balance of payments assistance. The IMF's share of total lending to Sub-Saharan Africa also increased from 7 to 11 percent between 1980 and 1983, as Fund resources were increasingly utilized to meet short-term financing needs. Outstanding IMF loans to Sub-Saharan countries currently account for nearly 15 percent of

total outstanding obligations to the IMF, although their share of total IMF quotas is only 3 percent.

The Fund has encouraged policy adjustments to help these countries adapt to changed economic circumstances and position themselves for sustained growth. However, it has not been possible to address effectively the long-term structural problems of these countries through IMF adjustment programs within the short- to medium-term timeframe that is consistent with the IMF's role and operations. Therefore, many countries in the region have had repeated recourse to IMF programs stretching over an extended period of time. For example, thirteen African countries have had more than four upper-tranche programs in the last ten years and have outstanding use of Fund resources over 100 percent of quota.

This "prolonged use" of IMF resources by many countries in the region weakens the revolving character of Fund financing and may reduce resources available for other members. Fund resources are intended to be used for temporary balance of payments financing -- not long-term development lending.

Closely related to the problem of prolonged use is the fact that an increasing number of countries in the region have fallen into arrears to the Fund. Seven Sub-Saharan countries are currently in arrears for a total of SDR 320 million, and arrears have grown rapidly. Under current rules, countries in arrears may not draw IMF resources under existing programs nor negotiate new ones. In the case of persistent arrears (nine months or more), a member may be declared ineligible to use IMF resources, a first step toward possible expulsion.

Continuation of such a situation represents a serious problem for both the countries and the IMF. We must address this problem and come up with a solution which preserves the financial integrity of the IMF while being realistic about the ability of the countries to improve their economic situation, restore their creditworthiness, and meet their financial obligations.

A New Approach

Despite expanded efforts by the IMF, MDBs, and bilateral donors to assist the Sub-Saharan countries' reform efforts, economic recovery remains as elusive as ever. This failure in part reflects inadequate action by the countries on the fundamental changes needed to create the conditions for sustained growth and development. It also springs from adverse external developments, especially depressed prices for the commodities which are the region's principal exports, and natural disasters which have afflicted the region.

Finally, the lack of success arises from the fact that the economic problems of the poorest countries require comprehensive reform extending over the longer term that would encompass both the types of structural changes supported primarily by the World Bank and sound macroeconomic policies which are the heart of IMF

programs. The individual efforts of the IMF, the MDBs, and bilateral donors, even though sound on their own terms, have not produced this comprehensive result.

A new formula is needed to address the region's economic problems, based on closer coordination between the IMF and the MDBs, and supported by bilateral official assistance. The $2.7 billion of repayments flowing back to the IMF Trust Fund through 1991 provides a unique opportunity to launch such a comprehensive economic reform effort for Africa. In a period of tight financial constraints, we cannot afford to waste these scarce resources. It is essential that they be targetted to help those most in need, and to lay the groundwork for future growth.

The United States therefore proposed at the IMF Interim Committee's October 6 meeting in Seoul that these reflows be used to provide concessional financing in support of comprehensive economic reform for the poorest countries with protracted balance of payments problems, primarily in Sub-Saharan Africa. Under the U.S. proposal:

- Eligibility would be based on low per capita income. Actual use of funds, however, would be based on an eligible country having a protracted balance of payments problem and being willing to implement a comprehensive growth-oriented economic program.

- Terms on loans would be concessional with low interest rates, substantial grace periods, and extended maturities.

- Conditions for participation would include a commitment to a multi-year growth-oriented economic program in which funds would be disbursed semi-annually based on satisfactory performance under the program.

This approach would seek to remove structural impediments to production, savings, investment and non-inflationary growth. To accomplish these objectives, each program would have to include both macro-economic and structural components, tailored to individual country needs.

- Macroeconomic policies would aim to provide a stable domestic policy environment for longer term restructuring and growth. They would continue to include sound monetary and fiscal policies to reduce domestic imbalances and inflation, as well as free market prices and exchange rates to encourage production and more efficient use of resources.

- Structural measures should reduce the role of government, give greater scope to private initiative, and provide stimulus to domestic growth. They would include efforts to privatize the public sector, improve the efficiency of state-owned enterprises, and reduce government intervention in the

economy. Growth-oriented tax reform and interest rates designed to stimulate savings and domestic investment should also be adopted.

- Finally, trade liberalization and investment promotion measures to make foreign direct investment more attractive would be critical to bring in the resources needed to boost both growth and exports.

While utilization of Trust Fund resources would be the responsibility of the IMF, it would be absolutely critical that the Fund operate in close cooperation with the World Bank to achieve a consistent policy approach that would help these countries in creating the fundamental conditions for growth.

Other participants in the Seoul meeting clearly shared our desire to accord priority attention to the problems of the poorest countries. Consequently, the Interim Committee endorsed the U.S. view that Trust Fund reflows should be used to provide concessional balance of payments support for low-income countries implementing comprehensive economic programs. There was also a consensus on the importance of close Fund/Bank cooperation.

The United States is also prepared to consider an even bolder approach involving joint IMF and World Bank programs and financing to foster adjustment and catalyze additional financing for these poorest countries. We believe that such an approach would have a number of important benefits.

- Joint programming would ensure close coordination of IMF and World Bank assistance for the poorest countries, and encourage closer cooperation between the institutions in general.

- The comprehensive nature of the programs would ensure that the institutions provide mutually consistent advice on the full range of macroeconomic policies and structural reforms necessary to attack poverty and promote growth.

- A joint approach could catalyze substantial additional resources for Sub-Saharan countries to support economic reform.

We noted in Seoul that we were prepared to consider seeking resources in support of such an approach if other donors were also prepared to make equitable contributions.

However, a number of countries seem to be concerned about the concept of joint IMF/World Bank programming. New ideas are rarely accepted overnight. And there has been some understandable reluctance to move into the uncharted waters of comprehensive programs which would unify the efforts of the two institutions.

Despite these concerns, I believe it is worth the effort to ensure that the IMF and World Bank are pulling in the same

direction, in the most effective manner possible. Joint programs, based on consistent policy advice and coordinated financial support, would be more effective, especially if they mobilize additional resources for reform. We are hopeful that others will recognize the merit of this approach, and we would hope for final agreement on it by the end of the year.

Whichever route is taken -- continued separate programs with closer coordination between Fund and Bank, or a bolder joint program approach -- we will attempt to ensure that the Trust Fund reflows are targetted to help the poorest countries, and their use based upon the adoption of macroeconomic and structural policy reforms which will improve prospects for sustained economic growth in Sub-Saharan Africa.

Conclusions

In conclusion, it is clear that additional efforts are needed to address the economic problems of Sub-Saharan Africa. Secretary Baker's proposals in Seoul have made a major step in this direction, and provide a basis for discussion of further, bolder steps in the future. They have gained the broad support of the global community.

I welcome the opportunity to discuss these ideas with you, and to answer your questions on our approach to aiding the poorest countries.

Thank you.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 24, 1985

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $8,305 million of 52-week bills to be issued October 31, 1985, and to mature October 30, 1986, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	7.50%	8.07%	92.417
High -	7.51%	8.08%	92.407
Average -	7.51%	8.08%	92.407

Tenders at the high discount rate were allotted 74%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 44,560	$ 14,560
New York	21,370,095	7,957,975
Philadelphia	5,940	5,940
Cleveland	24,195	21,075
Richmond	49,700	14,700
Atlanta	57,045	10,785
Chicago	1,434,635	81,735
St. Louis	73,650	41,650
Minneapolis	7,810	7,810
Kansas City	32,735	30,485
Dallas	8,080	8,080
San Francisco	2,183,4[illegible]	17,435
Treasury	92,515	92,515
TOTALS	$25,384,415	$8,304,745
Type		
Competitive	$23,357,750	$6,278,080
Noncompetitive	376,665	376,665
Subtotal, Public	$23,734,415	$6,654,745
Federal Reserve	1,500,000	1,500,000
Foreign Official Institutions	150,000	150,000
TOTALS	$25,384,415	$8,304,745

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TREASURY NEWS

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

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FOR IMMEDIATE RELEASE
October 25, 1985

JOINT STATEMENT OF
JAMES A. BAKER III, SECRETARY OF THE TREASURY
AND
JAMES C. MILLER III,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
ON
BUDGET RESULTS FOR FISCAL YEAR 1985

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, 1985. The statement shows:

-- receipts of $734.0 billion;

-- total outlays of $945.9 billion; and

-- a total deficit of $211.9 billion.

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

	Receipts	Outlays 1/	Deficit (-)
1984 Actual	666.5	851.8	-185.3
1985 Estimates and Actual:			
February 2/	736.9	959.1	-222.2
August 3/	736.0	947.3	-211.3
Actual	734.0	945.9	-211.9

1/ Includes the outlays of Federal entities that are off-budget under current law and proposed to be included on-budget.
2/ February 1985 from the 1986 Budget.
3/ August 1985 from the Mid-Session Review of the 1986 Budget.

Receipts.--Receipts were estimated in the February budget at $736.9 billion, and were revised downward slightly to $736.0 billion in the August Mid-Session Review. Actual receipts for 1985 were $734.0 billion, $2.0 billion below the August estimate. This decrease was the net effect of lower than anticipated collections of income taxes, partially offset by higher than estimated collections of other sources of receipts.

-- Individual income taxes were $2.5 billion below the August estimate. Lower nominal incomes than assumed in August were primarily responsible for $2.2 billion of this shortfall in individual income tax receipts. The classification of receipts resulting from the taxation of railroad retirement benefits as employment taxes and contributions, rather than as individual income taxes as was done in February and August, accounts for the remaining $0.3 billion decline in individual income tax receipts.

-- Collections of corporation income taxes were $0.6 billion below the Mid-Session Review, largely because corporate profits were lower than anticipated.

-- Other receipts were higher by $1.0 billion because collections of social insurance taxes and contributions, excise taxes, and deposits of earnings by the Federal Reserve were slightly higher than assumed in August.

Outlays.--Total outlays in the February Budget, including the outlays of Federal entities that are off-budget under current law and proposed to be included on-budget, were estimated at $959.1 billion. This estimate was reduced by $11.8 billion, to $947.3 billion, in the Mid-Session Review, reflecting the net impact of technical reestimates, policy changes, and a revised economic forecast. Actual 1985 outlays were $945.9 billion, $1.4 billion below the August estimate.

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

-- A decrease of $0.5 billion below the August outlay estimate for international monetary programs reflects the impact of changes in exchange rates on the U.S. reserve position in the International Monetary Fund.

-- Net outlays for military sales programs were $0.5 billion above the Mid-Session estimate due to higher than expected disbursements and lower than anticipated offsetting receipts.

Department of Agriculture

-- Outlays for the Commodity Credit Corporation and foreign assistance were $0.7 billion above the August estimate. This difference is attributable primarily to higher than anticipated commodity loans, particularly for corn and wheat.

-- Food and Nutrition Service outlays were $0.3 billion under the Mid-Session estimate due to lower than anticipated participation in the food stamp program and changes in caseload composition in the child nutrition program.

Department of Defense - Military

-- Defense outlays were $3.1 billion higher than the Mid-Session estimate, which assumed a shortfall from the budget request of $5.3 billion. The actual shortfall from the budget was only $2.2 billion. The shortfall from the budget estimate results primarily from reprogrammings due to non-enactment of pay supplementals, delay in approval of the MX program, and reduced operation and maintenance spending.

Department of Education

-- Net outlays for the Department of Education were $0.3 billion lower than the August estimate because of lower than usual drawdowns by States toward the end of the year.

Department of Energy

-- Outlays for the Department of Energy were $1.2 billion above the Mid-Session estimate primarily because the Department paid $1.2 billion to the Federal Financing Bank (FFB) to cover the principal and interest on loans made to the Great Plains Gasification Associates, which are now in default. This payment, which increases Department of Energy outlays and decreases outlays for the FFB, has no net impact on total outlays or the deficit.

Department of Health and Human Services

-- Social security (OASDI) outlays were $0.6 billion below the Mid-Session estimate because administrative expenses and retroactive benefit payments were lower than expected.

Department of Transportation

-- Outlays for Federal Highway Administration were $0.3 billion greater than the Mid-Session estimate because of higher than projected outlays from prior years' funds.

Department of Treasury

-- Due to delays in the passage of the statutory debt limit increase, some net market borrowing during the third calendar quarter had to be deferred. This deferral, combined with slightly lower interest rates, reduced interest on the public debt outlays by $0.4 billion from the Mid-Session Review estimate.

-- Federal Financing Bank outlays were $0.5 billion below the Mid-Session estimate. Net outlays of the Bank were reduced by $1.2 billion because of the payment received from the Department of Energy for the defaulted loans made to the Great Plains Gasification Associates. In addition, lower than expected procurement of military equipment caused the outlays for foreign military sales credits to decrease by $0.3 billion. These decreases were partly offset by outlays of $1.3 billion for loans secured by Navy ship leasing, which were not included in the August estimates.

General Services Administration

-- Outlays of the General Services Administration (GSA) were $0.3 billion below the August estimate. This decrease is due to the transfer of receipts to GSA's National Defense Stockpile Transaction fund from the Naval Petroleum Reserves in the Department of Energy.

Federal Deposit Insurance Corporation

-- Federal Deposit Insurance Corporation outlays were $0.5 billion lower than the Mid-Session estimate because of fewer than assumed bank failures.

Federal Home Loan Bank Board

-- Outlays of the Federal Home Loan Bank Board were $0.5 billion below the August estimate because of greater use of non-cash techniques to handle insolvencies of FSLIC insured institutions.

Postal Service

-- Net outlays of the Postal Service were $0.4 billion under the Mid-Session estimate. This was due to a combination of improved operating results and timing differences between Postal Service's estimates based on its 4-week accounting cycle and actual calendar month results reported to Treasury.

Undistributed Offsetting Receipts

-- Offsetting collections of Federal employer contributions to retirement funds were $0.4 billion above the August estimate. This increase in offsetting collections was caused partly by the Postal Service contract settled in June, which included a retroactive pay raise to Postal employees, and partly by a slightly higher than assumed civilian payroll.

-- Interest received by trust funds was $0.3 billion higher than projected for the Mid-Session estimate due to higher than estimated trust fund balances.

Other Outlay Decreases

In addition to the changes described above, outlays for numerous other agencies were $2.1 billion below the Mid-Session estimates. Among these agencies were the Legislative branch and the Judiciary, Department of Commerce, Department of Housing and Urban Development, and Veterans Administration, each of which declined by $0.2 billion below the Mid-Session estimate.

Table 2.--1985 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	1984 Actual	1985 Estimate February	1985 Estimate August	1985 Actual
Receipts by Source				
Individual income taxes 1/	295,955	329,677	333,389	330,918
Corporation income taxes	56,893	66,403	61,916	61,331
Social insurance taxes and contributions:				
Employment taxes and contributions 1/	212,184	238,058	237,808	238,288
Unemployment insurance	25,138	25,586	25,848	25,758
Other retirement contributions	4,580	4,723	4,631	4,759
Subtotal, Social insurance taxes and contributions	241,902	268,367	268,287	268,805
Excise taxes	37,361	36,995	35,585	35,865
Estate and gift taxes	6,010	5,603	6,303	6,422
Customs	11,370	11,809	12,194	12,079
Miscellaneous receipts	16,965	18,004	18,333	18,576
Total, Receipts	666,457	736,859	736,007	733,996

1/ For the February and August estimates, collections resulting from the taxation of railroad retirement benefits were classified as individual income taxes. In the actual data presented in this statement these collections are classified as employment taxes and contributions. While this accounting difference does not affect receipts in total, it does affect the distribution of receipts between individual income taxes and employment taxes and contributions.

Table 2.--1985 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (Cont.)

	1984 Actual	1985 Estimate February	1985 Estimate August	1985 Actual
On-Budget Outlays by Major Agency				
Legislative branch and the Judiciary	2,446	2,805	2,817	2,576
Executive Office of the President	95	117	117	111
Funds appropriated to the President:				
Disaster relief	243	200	236	192
International security assistance:				
Economic support fund	2,874	3,937	4,937	4,889
Other	2,160	3,767	3,548	3,429
International development assistance	2,819	3,190	3,227	3,012
International monetary programs	565	---	---	-546
Military sales programs	-389	-213	-413	85
Other	209	195	205	217
Subtotal, Funds appropriated to the President	8,481	11,076	11,740	11,277
Agriculture:				
Commodity Credit Corporation and foreign assistance	8,450	16,872	18,741	19,448
Farmers Home Administration	6,066	5,134	6,216	6,435
Food and Nutrition Service	17,579	18,216	18,273	17,994
Offsetting receipts	-998	-1,456	-1,167	-1,035
Other 1/	6,374	6,354	6,744	6,747
Subtotal, Agriculture 1/	37,471	45,120	48,808	49,589
Commerce	1,893	2,113	2,336	2,140
Defense-Military:				
Military personnel	64,158	67,546	.....	67,842
Operation and maintenance	67,369	74,569	.....	72,348
Procurement	61,879	69,706	.....	70,381
Research, development, test, and evaluation	23,117	27,786	.....	27,103
Other	4,315	6,692	.....	6,379
Subtotal, Defense-Military	220,838	246,300	240,995	244,054

Table 2.--1985 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (Cont.)

	1984 Actual	1985 Estimate February	1985 Estimate August	1985 Actual
Defense-Civil	19,544	18,978	18,858	18,844
Education	15,511	17,391	17,026	16,682
Energy 1/	10,617	10,957	10,565	11,807
Health and Human Services:				
Social security (OASDI)	180,866	193,607	191,581	190,986
Medicare	62,669	71,803	71,378	71,398
Medicaid	20,061	22,985	22,813	22,655
Public Health Service	8,184	8,895	8,938	8,882
Other	20,533	21,203	21,760	21,633
Subtotal, Health and Human Services	292,313	318,493	316,469	315,553
Housing and Urban Development:				
Housing payments	8,774	9,362	9,760	9,974
Federal Housing Administration fund	-366	-802	-702	-654
Low-rent housing - loans and other expenses	1,111	14,447	13,970	13,885
Government National Mortgage Association	612	-731	-695	-891
Community development grants	3,819	3,900	3,900	3,817
Other	2,570	2,747	2,639	2,540
Subtotal, Housing and Urban Development	16,520	28,922	28,872	28,671
Interior	4,961	5,009	4,897	4,828
Justice	3,165	3,855	3,604	3,518
Labor:				
Training and employment services	3,196	3,638	3,499	3,415
Advances to the unemployment trust fund and other funds	4,182	1,675	1,604	1,586
Unemployment trust fund	26,089	22,787	23,900	23,826
Other	1,954	2,117	2,257	2,115
Intrabudgetary transactions	-10,899	-6,752	-6,967	-7,048
Subtotal, Labor	24,522	23,465	24,293	23,893

Table 2.--1985 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (Cont.)

	1984 Actual	1985 Estimate February	1985 Estimate August	1985 Actual
State	2,403	2,703	2,645	2,645
Transportation:				
Federal Highway Administration	10,569	13,110	12,574	12,883
Federal Aviation Administration	3,819	4,333	4,275	4,267
Other	9,568	8,788	8,011	7,937
Subtotal, Transportation	23,956	26,232	24,860	25,087
Treasury:				
Interest on the public debt	153,838	180,300	179,300	178,945
Offsetting receipts	-25,740	-27,236	-27,215	-26,896
Federal Financing Bank 1/	7,277	10,442	7,871	7,339
Other	13,008	13,212	13,194	12,994
Subtotal, Treasury 1/	148,382	176,718	173,150	172,382
Environmental Protection Agency	4,057	4,418	4,506	4,511
General Services Administration	192	371	86	-214
National Aeronautics and Space Administration	7,048	7,317	7,313	7,318
Office of Personnel Management	22,590	23,612	23,627	23,727
Small Business Administration	255	726	328	283
Veterans Administration	25,593	26,811	26,559	26,333
District of Columbia	570	499	237	237
Export-Import Bank	1,068	1,359	-252	-384
Federal Deposit Insurance Corporation	-248	-1,000	-1,450	-1,942
Federal Emergency Management Agency	591	590	520	469
Federal Home Loan Bank Board	-561	350	872	415
National Credit Union Administration	193	-822	-852	-855
Postal Service 1/	1,239	1,361	1,733	1,351
Railroad Retirement Board	3,606	4,024	4,069	4,129
Tennessee Valley Authority	351	678	920	914
Other (net) 1/	4,485	5,259	5,191	4,952
Allowances, undistributed	---	1,131	---	---

Table 2.--1985 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY (Cont.)

	1984 Actual	1985 Estimate February	1985 Estimate August	1985 Actual
Undistributed offsetting receipts:				
Other interest	-18	---	---	-2
Federal employer contributions to retirement funds	-25,263	-26,994	-26,922	-27,359
Interest received by trust funds	-20,376	-25,554	-25,722	-26,070
Rents and royalties on the Outer Continental Shelf	-6,694	-5,302	-5,493	-5,542
Total, Outlays	851,796	959,085	947,321	945,927
Deficit (-)	-185,339	-222,226	-211,314	-211,931
Addendum:				
Outlays on-budget under current law	841,800	946,626	937,286	936,809
Outlays off-budget under current law	9,996	12,459	10,035	9,118

NOTE: Detail may not add to totals because of rounding.

1/ Includes the outlays of Federal entities that are off-budget under current law and proposed to be included on-budget.

For Fiscal Year 1985,
Through September 30, 1985,
and Other Periods

[1] Final Monthly Treasury Statement of Receipts and Outlays of the United States Government

Department of the Treasury
Financial Management Service

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[1]This publication contains the final budget results for fiscal year 1985.

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Department of the Treasury, Financial Management Service, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 17th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; outlays of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1984 and 1985, by Month (in millions)

Period	Budget Receipts	Budget Outlays	Budget Deficit/(Surplus)
FY 1984			
October	$45,157	$70,226	$25,069
November	46,202	67,794	21,591
December	58,044	74,705	16,661
January	62,537	68,052	5,515
February	47,886	68,267	20,381
March	44,464	73,020	28,555
April	80,180	68,687	(11,493)
May	37,459	71,391	33,932
June	69,282	71,283	2,000
July	52,017	68,432	16,416
August	55,209	88,707	33,498
September	68,019	51,234	(16,785)
Total	**666,457**	**841,800**	**175,342**
FY 1985			
October	52,251	81,037	28,787
November	51,494	79,956	28,462
December	62,404	77,583	15,179
January	70,454	76,838	6,384
February	54,021	74,851	20,830
March	49,606	78,067	28,461
April	94,593	82,228	(12,365)
May	39,794	80,245	40,450
June	72,151	71,506	(645)
July	[1]57,970	[1]78,012	20,042
August	55,776	83,621	27,845
September	73,808	73,191	(617)
Year-to-date	**733,996**	**936,809**	**202,813**

Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.
[1]Does not include a prior period adjustment of $326 million. However, the current fiscal year to date figure does include the adjustment.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	Current Month	Actual Fiscal Year to Date	Budget Estimates Full Fiscal Year 1985[1]	Actual Previous Fiscal Year to Date (1984)	Budget Estimates Next Fiscal Year (1986)[1]
Total budget and off-budget results:					
Budget receipts	$73,808	$733,996	$736,007	$666,457	$779,850
Budget outlays	73,191	936,809	937,286	841,800	955,293
Budget surplus (+) or deficit (−)	+617	−202,813	−201,279	−175,342	−175,444
Off-budget surplus (+) or deficit (−)	−1,381	−9,118	−10,035	−9,996	−2,384
Total surplus (+) or deficit (−)	−764	−211,931	−211,314	−185,339	−177,828
Means of financing:					
By Borrowing from the public	5,975	197,269	202,580	170,817	179,507
By Reduction of Cash and Monetary assets, increase (−)	−6,248	10,673	10,426	5,636	......
By Other means	1,038	3,989	−1,692	8,885	−1,679
Total budget and off-budget financing	764	211,931	211,314	185,339	177,828

[1]Based on the Mid-Session review of the FY 1985 budget released by the Office of Management and Budget on August 30, 1985.
... No transactions.
Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.

Figure 1. Monthly Receipts, Outlays, and Budget Deficits/Surplus of the U.S. Government, Fiscal Years 1984 and 1985

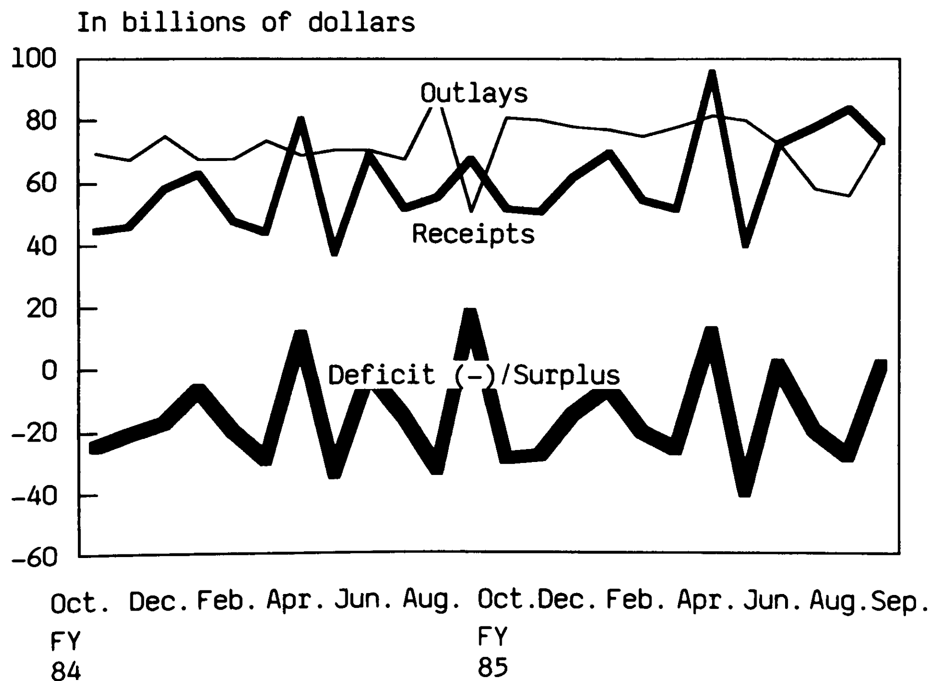

Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1984 and 1985

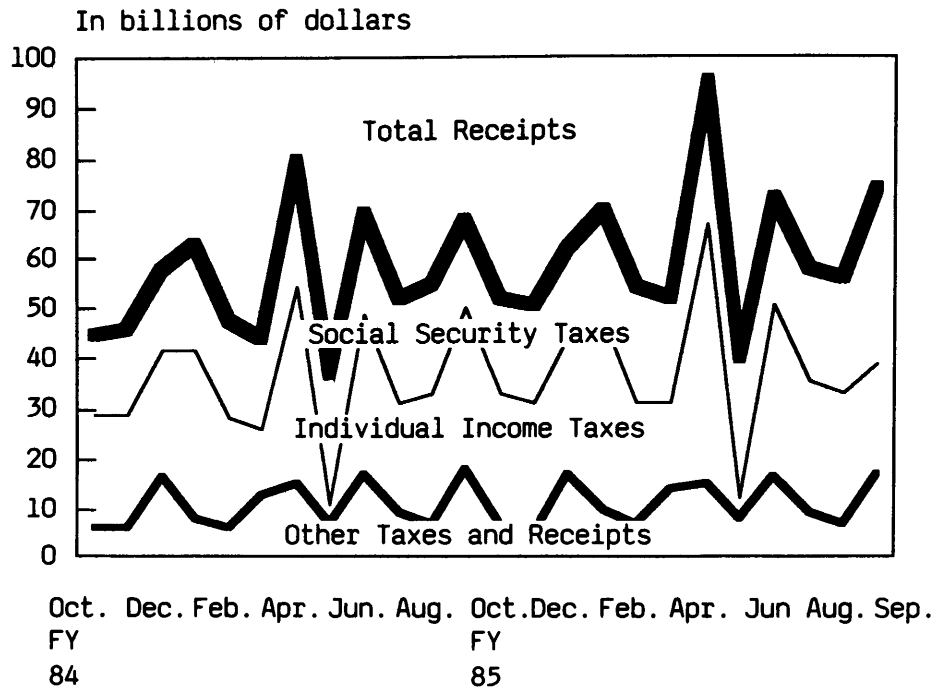

Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1984 and 1985

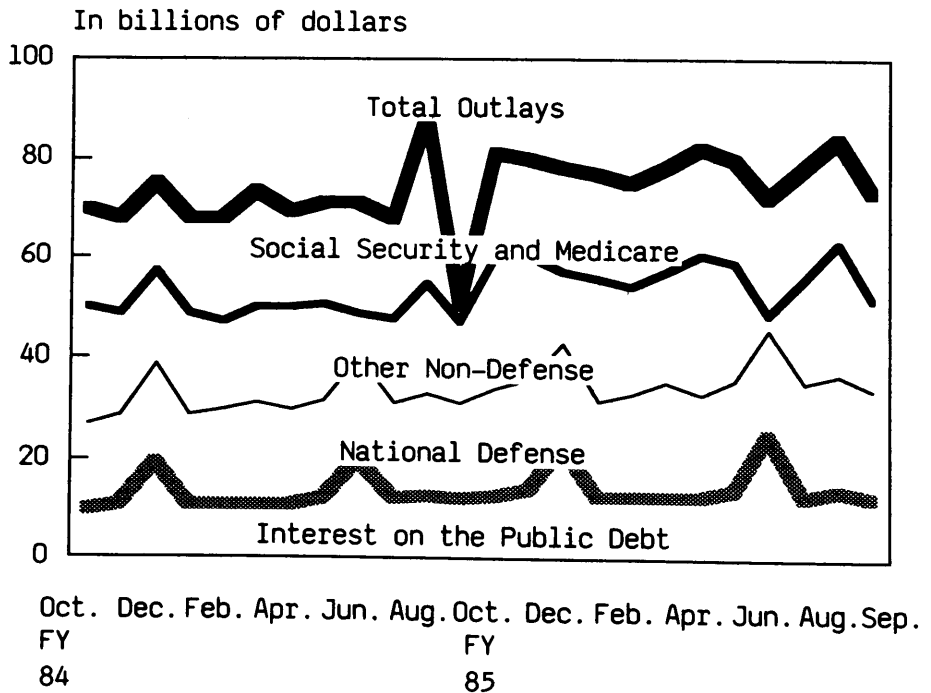

Table 3. Summary of Receipts and Outlays of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	Actual This Month	Actual This Fiscal Year to Date	Actual Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	$34,643	$330,918	$295,955	$333,389
Corporation income taxes	10,950	61,331	56,893	61,916
Social insurance taxes and contributions:				
Employment taxes and contributions	21,325	238,288	212,184	237,808
Unemployment insurance	275	25,758	25,138	25,848
Other retirement contributions	376	4,759	4,580	4,631
Excise taxes	3,331	35,865	37,361	35,585
Estate and gift taxes	497	6,422	6,010	6,303
Customs duties	936	12,079	11,370	12,194
Miscellaneous receipts	1,473	18,576	16,965	18,333
Total	**73,808**	**733,996**	**666,457**	**736,007**
Budget Outlays				
Legislative Branch	122	1,610	1,579	1,792
The Judiciary	66	966	866	1,024
Executive Office of the President	8	111	95	117
Funds Appropriated to the President	1,424	11,277	8,481	11,740
Department of Agriculture[2]	3,113	49,596	37,426	48,788
Department of Commerce	167	2,140	1,893	2,336
Department of Defense—Military	21,018	244,054	220,838	240,995
Department of Defense—Civil	1,761	18,844	19,544	18,858
Department of Education	1,244	16,682	15,511	17,026
Department of Energy[2]	1,769	10,186	8,289	8,942
Department of Health and Human Services	25,091	315,553	292,313	316,469
Department of Housing and Urban Development	1,085	28,671	16,520	28,872
Department of the Interior	584	4,828	4,961	4,897
Department of Justice	269	3,518	3,165	3,604
Department of Labor	1,741	23,893	24,522	24,293
Department of State	159	2,645	2,403	2,645
Department of Transportation	2,456	25,087	23,956	24,860
Department of the Treasury:				
General revenue sharing	1	4,584	4,567	4,610
Interest on the public debt	13,207	178,945	153,838	179,300
Other[2]	−2,717	−18,486	−17,299	−18,631
Environmental Protection Agency	322	4,511	4,057	4,506
General Services Administration	56	−214	192	86
National Aeronautics and Space Administration	593	7,318	7,048	7,313
Office of Personnel Management	2,090	23,727	22,590	23,627
Small Business Administration	170	283	255	328
Veterans Administration	939	26,333	25,593	26,559
Other independent agencies[2]	1,254	9,121	10,946	10,467
Allowances, undistributed	....	....	......	....
Undistributed offsetting receipts:				
Other interest	−1	−2	−18	....
Employer share,employee retirement	−3,670	−27,359	−25,263	−25,722
Interest received by trust funds	−304	−26,070	−20,376	−26,922
Rents and royalties on the Outer Continental Shelf lands	−827	−5,542	−6,694	−5,493
Total	**73,191**	**936,809**	**841,800**	**937,286**
Budget surplus (+) or deficit (−)	**+617**	**−202,813**	**−175,342**	**−201,279**
Off-budget surplus (+) or deficit (−)	**−1,381**	**−9,118**	**−9,996**	**−10,035**
Total surplus (+) or deficit (−)	**−764**	**−211,931**	**−185,339**	**−211,314**

[1]Based on the Mid-Session Review of the 1986 Budget estimates released by OMB on August 30, 1985. The 1986 Budget includes a proposal to abolish the off-budget status of off-budget entities and to include these entities in the on-budget totals. While the budget included the off-budget data on-budget (under proposed legislation), the *Monthly Treasury Statement* is continuing to show them off-budget in conformity with current law. This presentation will be retained until enactment of the legislation repealing the off-budget status of these entitles. The estimates for 1985 and 1986 in this document have been adjusted from the published budget totals to show the currently off-budget entitles as still being off-budget in order to make the full fiscal year estimates consistent with the accounting basis for the monthly data.

[2]The outlays of this agency will be effected when the reclassification of all off-budget agencies to on-budget takes place.

... No transactions.

Note: Details may not add to totals because of rounding.

Source: Financial Management Service, Department of the Treasury.

Table 4. Receipts of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	$22,569			$298,941			$279,345		
Presidential Election Campaign Fund	1			35			35		
Other	13,613			97,685			81,346		
Total—Individual income taxes	**36,183**	**$1,539**	**$34,643**	**396,661**	**$65,743**	**$330,918**	**360,726**	**$64,771**	**$295,955**
Corporation income taxes	**12,224**	**1,275**	**10,950**	**77,413**	**16,082**	**61,331**	**74,179**	**17,286**	**56,893**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	12,676	....	12,676	144,925	472	144,453	129,090	296	128,794
Self-Employment Contributions Act taxes	920	....	920	7,718	....	7,718	6,602	....	6,602
Deposits by States	2,136	....	2,136	17,651	....	17,651	14,916	....	14,916
Taxes on benefits	6	....	6	3,151	....	3,151	2,132	....	2,132
Total—FOASI trust fund	15,738	....	15,738	173,445	472	172,973	152,740	296	152,444
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	1,217	....	1,217	14,031	49	13,982	13,451	39	13,412
Self-Employment Contributions Act taxes	88	....	88	779	....	779	733	....	733
Deposits by States	96	....	96	1,587	....	1,587	1,618	....	1,618
Taxes on benefits	(**)	....	(**)	218	....	218	143	....	143
Total—FDI trust fund	1,401	....	1,401	16,615	49	16,566	15,945	39	15,907
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	3,365	....	3,365	38,501	129	38,372	34,557	81	34,476
Self-Employment Contributions Act taxes	239	....	239	1,971	....	1,971	1,374	....	1,374
Receipts from Railroad Retirement Board	....	....	....	326	....	326	308	....	308
Deposits by States	259	....	259	4,202	....	4,202	4,103	....	4,103
Total—FHI trust fund	3,863	....	3,863	44,999	129	44,871	40,342	81	40,262
Railroad retirement accounts:									
Rail industry pension fund	253	3	250	2,235	21	2,213	3,334	13	3,321
Railroad social security equivalent benefit	73	....	73	1,391	....	1,391	....	....	....
Taxes on benefits	....	....	....	274	....	274	251	....	251
Total—Employment taxes and contributions	21,328	3	21,325	238,959	671	238,288	212,612	428	212,184
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	208	....	208	19,969	....	19,969	19,036	....	19,036
Federal Unemployment Tax Act taxes	80	12	68	5,688	133	5,554	6,052	153	5,899
Railroad Unemployment Ins. Act contributions	(**)	....	(**)	235	....	235	202	....	202
Total—Unemployment trust fund	287	12	275	25,892	133	25,758	25,291	153	25,138
Federal employees retirement contributions:									
Civil service retirement and disability fund	363	....	363	4,630	....	4,630	4,455	....	4,455
Foreign service retirement and disability fund	5	....	5	39	....	39	38	....	38
Other	(**)	....	(**)	2	....	2	2	....	2
Total—Federal employees retirement contributions	368	....	368	4,672	....	4,672	4,494	....	4,494
Other retirement contributions:									
Civil service retirement and disability fund	8	....	8	87	....	87	86	....	86
Total—Social insurance taxes and contributions	**21,992**	**15**	**21,977**	**269,610**	**804**	**268,805**	**242,483**	**581**	**241,902**
Excise taxes:									
Miscellaneous excise taxes[1]	1,581	−177	1,759	19,659	242	19,418	23,019	418	22,601
Airport and airway trust fund	264	(**)	263	2,856	4	2,851	2,501	2	2,499
Highway trust fund	1,450	197	1,253	13,443	428	13,015	11,885	142	11,743
Black lung disability trust fund	57	....	57	581	....	581	518	....	518
Total—Excise taxes	**3,351**	**20**	**3,331**	**36,539**	**674**	**35,865**	**37,923**	**562**	**37,361**
Estate and gift taxes	**510**	**12**	**497**	**6,580**	**157**	**6,422**	**6,179**	**168**	**6,010**
Customs duties	**972**	**37**	**936**	**12,498**	**420**	**12,079**	**11,791**	**421**	**11,370**
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve banks	1,339	....	1,339	17,059	....	17,059	15,684	....	15,684
All other	135	1	134	1,545	28	1,517	1,303	22	1,281
Total—Miscellaneous receipts	**1,474**	**1**	**1,473**	**18,604**	**28**	**18,576**	**16,987**	**22**	**16,965**
Total—Budget receipts	**76,707**	**2,899**	**73,808,**	**817,904**	**83,908**	**733,996**	**750,269**	**83,812**	**666,457**

[1]Includes amounts received for windfall profit tax pursuant to P.L. 96-223.
.... No transactions.
(**) Less than $500,000.
Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.

Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	$24	$1	$24	$271	$7	$265	$256	$6	$251
House of Representatives	40	1	39	471	9	463	452	9	442
Joint items	7	.....	7	97	.....	97	120	.....	120
Congressional Budget Office	1	.....	1	16	.....	16	16	.....	16
Architect of the Capitol	8	.....	8	107	.....	107	94	.....	94
Library of Congress	16	.....	16	277	.....	277	268	.....	268
Government Printing Office:									
Revolving fund (net)	7	.....	7	−11	.....	−11	5	.....	5
General fund appropriations	−1	.....	−1	81	.....	81	102	.....	102
General Accounting Office	26	.....	26	290	.....	290	262	.....	262
United States Tax Court	2	.....	2	19	.....	19	15	.....	15
Other Legislative Branch agencies	(**)	.....	(**)	19	.....	19	13	.....	13
Proprietary receipts from the public	.....	1	−1	.....	5	−5	.....	5	−5
Intrabudgetary transactions	−5	.....	−5	−8	.....	−8	−4	.....	−4
Total—Legislative Branch	**124**	**2**	**122**	**1,630**	**21**	**1,610**	**1,599**	**20**	**1,579**
The Judiciary:									
Supreme Court of the United States	1	.....	1	16	.....	16	14	.....	14
Courts of appeals, district courts, and other judicial services	61	.....	61	900	.....	900	807	.....	807
Other	3	.....	3	50	.....	50	46	.....	46
Total—The Judiciary	**66**	**.....**	**66**	**966**	**.....**	**966**	**866**	**.....**	**866**
Executive Office of the President:									
Compensation of the President and the White House Office	2	.....	2	24	.....	24	16	.....	16
Office of Management and Budget	3	.....	3	41	.....	41	37	.....	37
Other	3	.....	3	46	.....	46	43	.....	43
Total—Executive Office of the President	**8**	**.....**	**8**	**111**	**.....**	**111**	**95**	**.....**	**95**
Funds Appropriated to the President:									
Appalachian Regional Development programs	22	.....	22	201	.....	201	212	.....	212
Disaster relief	16	.....	16	192	.....	192	243	.....	243
International security assistance:									
Guarantee reserve fund	173	1	172	727	336	390	581	333	248
Foreign military sales credit	55	.....	55	2,275	.....	2,275	1,060	.....	1,060
Economic support fund	1,231	.....	1,231	4,889	.....	4,889	2,874	.....	2,874
Military assistance	38	.....	38	848	.....	848	928	.....	928
Peacekeeping operations	3	.....	3	37	.....	37	39	.....	39
Other	6	.....	6	44	.....	44	43	.....	43
Proprietary receipts from the public	.....	2	−2	.....	165	−165	.....	158	−158
Total—International security assistance	1,506	3	1,504	8,819	501	8,318	5,525	491	5,034
International development assistance:									
Multilateral assistance:									
Contributions to international financial institutions:									
International Development Association	.....	.....	.....	874	.....	874	911	.....	911
Inter-American Development Bank	5	.....	5	328	.....	328	325	.....	325
Other	13	.....	13	225	.....	225	155	.....	155
International organizations and programs	12	.....	12	336	.....	336	308		308
Total—Multilateral assistance	31	.....	31	1,763	.....	1,763	1,699	.....	1,699
Agency for International Development:									
Functional development assistance program	−3	1	[1]−4	1,221	5	1,216	1,209	4	1,205
Operating expenses, Agency for International Development	33	.....	33	377	.....	377	358		358
Payment to Foreign Service retirement and disability fund	1	.....	1	42	.....	42	41	.....	41
Other	92	2	90	365	29	336	245	28	217
Proprietary receipts from the public	.....	51	−51	.....	763	−763	.....	738	−738
Total—Agency for International Development	123	54	69	2,005	798	1,207	1,853	770	1,083
Trade and development program	1	.....	1	13	.....	13	10	.....	10
Peace Corps	9	.....	9	118	(**)	118	111	.....	111
Overseas Private Investment Corporation	7	12	−5	−6	93	−99	41	140	−99
Inter-American Foundation	2	2	(**)	24	18	6	22	8	14
African Development Foundation	(**)	.....	(**)	3	.....	3	1		1
Total—International development assistance	173	68	105	3,921	909	3,012	3,737	918	2,819

Table continued on next page.

Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Funds Appropriated to the President:—Continued									
International monetary programs	-$211	......	-$211	-$546	.....	-$546	$565	......	$565
Military sales programs:									
Foreign military sales trust fund	877	.....	877	9,792	......	9,792	10,936	......	10,936
Other	7	$42	-35	64	$121	-58	31	$119	-89
Proprietary receipts from the public	......	863	-863	......	9,649	-9,649	......	11,237	-11,237
Other	10	......	10	16	......	16	-3	......	-3
Total—Funds Appropriated to the President	**2,400**	**976**	**1,424**	**22,459**	**11,181**	**11,277**	**21,246**	**12,765**	**8,481**
Department of Agriculture:									
Departmental administration	5	.....	5	89	.....	89	71	....	71
Agricultural Research Service	41	.....	41	496	.....	496	487	....	487
Cooperative State Research Service	22	.....	22	244	.....	244	239	.....	239
Extension Service	28	....	28	338	.....	338	330	....	330
Statistical Reporting Service	5	......	5	57	.....	57	56	....	56
Economic Research Service	4	......	4	45	.....	45	36	....	36
Foreign Agricultural Service	4	......	4	76	.....	76	74	.....	74
Foreign Assistance Programs	117	......	117	1,842	.....	1,842	1,142	....	1,142
Agricultural Stabilization and Conservation Service	71	......	71	293	.....	293	275	......	275
Federal Crop Insurance Corporation	76	5	71	649	143	506	666	90	576
Commodity Credit Corporation	1,419	606	813	24,313	6,707	17,606	14,044	6,736	7,308
Rural Electrification Administration	2	(**)	2	281	2	279	231	1	231
Farmers Home Administration:									
Public enterprise funds:									
Self-help housing land development fund	(**)	......	(**)	......	(**)	(**)	.....	1	-1
Rural housing insurance fund	649	373	276	8,869	6,484	2,385	10,041	7,700	2,340
Agricultural credit insurance fund	536	617	-81	13,090	10,308	2,782	12,974	10,497	2,478
Rural development insurance fund	115	103	13	2,898	2,174	724	3,081	2,328	753
Rural water and waste disposal grants	19	....	19	176	...	176	135	......	135
Salaries and expenses	30	....	30	340	...	340	324	......	324
Other	2	.....	2	28	...	28	37	......	37
Total—Farmers Home Administration	1,352	1,093	260	25,401	18,966	6,435	26,592	20,526	6,066
Soil Conservation Service:									
Conservation operations	27	.....	27	368	..	368	353	......	353
Watershed and flood prevention operations	27	......	27	249	..	249	218	......	218
Other	7	....	7	74	..	74	76	......	76
Animal and Plant Health Inspection Service	29	...	29	305	..	305	296	......	296
Agricultural Marketing Service:									
Funds for strengthening markets, income, and supply	101	.....	101	476	...	476	417	......	417
Other	9	3	6	166	33	133	152	37	115
Food Safety and Inspection Service	29	....	29	360	....	360	339	......	339
Food and Nutrition Service:									
Food stamp program	938	....	938	11,701	....	11,701	11,561	......	11,561
Nutrition assistance for Puerto Rico	81	...	81	825	...	825	814	....	814
Child nutrition programs	172	...	172	3,665	...	3,665	3,536	...	3,536
Women, infants and children programs	130	....	130	1,538	...	1,538	1,398	....	1,398
Other	21	...	21	266	...	266	270	....	270
Total—Food and Nutrition Service	1,341	...	1,341	17,994	......	17,994	17,579	....	17,579
Forest Service:									
Forest research	10	...	10	113	......	113	109	...	109
National Forests system	-22	......	[1]-22	1,063	.....	1,063	1,057	......	1,057
Construction	41	....	41	316	.....	316	331	......	331
Forest Service permanent appropriations	6	....	6	280	.....	280	213	.....	213
Cooperative work	154	....	154	285	.....	285	135	......	135
Other	9	....	9	185	.....	185	186	......	186
Total—Forest Service	199	....	199	2,242	.....	2,242	2,029	.....	2,029
Other	12	1	11	137	13	124	112	(**)	112
Proprietary receipts from the public	....	108	-108	.....	1,035	-1,035	......	998	-998
Intrabudgetary transactions	...	......	.....	(**)	......	(**)	(**)	....	(**)
Total—Department of Agriculture	**4,929**	**1,816**	**3,113**	**76,494**	**26,898**	**49,596**	**65,814**	**28,388**	**37,426**

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Commerce:									
General administration	(**)	.....	(**)	$34	.....	$34	$33	.....	$33
Bureau of the Census	$11	.....	$11	176	.....	176	161	.....	161
Economic and Statistical Analysis	6	.....	6	69	.....	69	59	.....	59
Economic Development Assistance	20	$7	13	452	$90	362	312	$93	219
Promotion of Industry and Commerce	20	.....	20	249	.....	249	253	.....	253
Science and technology:									
National Oceanic and Atmospheric Administration	110	1	109	1,091	15	1,076	1,021	15	1,006
Patent and Trademark Office	8	.....	8	96	.....	96	67	.....	67
National Bureau of Standards	10	.....	10	130	.....	130	118	.....	118
National Telecommunications and Information Administration	2	.....	2	32	.....	32	31	.....	31
Total—Science and technology	130	1	129	1,349	15	1,334	1,237	15	1,222
Proprietary receipts from the public	.....	10	−10	.....	73	−73	.....	63	−63
Intrabudgetary transactions	−1	.....	−1	−11	.....	−11	10	.....	10
Total—Department of Commerce	**185**	**18**	**167**	**2,318**	**178**	**2,140**	**2,065**	**171**	**1,893**
Department of Defense—Military:									
Military personnel:									
Department of the Army	2,397	.....	2,397	26,212	.....	26,212	18,327	.....	18,327
Department of the Navy	1,932	.....	1,932	22,259	.....	22,259	15,709	.....	15,709
Department of the Air Force	1,669	.....	1,669	19,371	.....	19,371	13,619	.....	13,619
Imputed accruals for retirement	.....	.....	.....	.....	.....	.....	16,503	.....	[2]16,503
Total—Military personnel[3]	5,998	.....	5,998	67,842	.....	67,842	64,158	.....	64,158
Operation and maintenance:									
Department of the Army	1,848	.....	1,848	19,452	.....	19,452	18,362	.....	18,362
Department of the Navy	2,506	.....	2,506	25,461	.....	25,461	23,488	.....	23,488
Department of the Air Force	1,873	.....	1,873	20,203	.....	20,203	19,274	.....	19,274
Defense agencies	600	.....	600	7,232	.....	7,232	6,245	.....	6,245
Total—Operation and maintenance	6,827	.....	6,827	72,348	.....	72,348	67,369	.....	67,369
Procurement:									
Department of the Army	1,499	.....	1,499	15,145	.....	15,145	13,577	.....	13,577
Department of the Navy	2,269	.....	2,269	25,750	.....	25,750	23,989	.....	23,989
Department of the Air Force	2,664	.....	2,664	28,445	.....	28,445	23,541	.....	23,541
Defense agencies	89	.....	89	1,041	.....	1,041	772	.....	772
Total—Procurement	6,521	.....	6,521	70,381	.....	70,381	61,879	.....	61,879
Research, development, test, and evaluation:									
Department of the Army	346	.....	346	3,950	.....	3,950	3,812	.....	3,812
Department of the Navy	728	.....	728	8,054	.....	8,054	6,662	.....	6,662
Department of the Air Force	840	.....	840	11,573	.....	11,573	10,353	.....	10,353
Defense agencies	319	.....	319	3,527	.....	3,527	2,289	.....	2,289
Total—Research, development, test, and evaluation	2,232	.....	2,232	27,103	.....	27,103	23,117	.....	23,117
Military construction:									
Department of the Army	87	.....	87	1,133	.....	1,133	963	.....	963
Department of the Navy	115	.....	115	1,267	.....	1,267	1,053	.....	1,053
Department of the Air Force	166	.....	166	1,524	.....	1,524	1,314	.....	1,314
Defense agencies	11	.....	11	336	.....	336	375	.....	375
Total—Military construction	378	.....	378	4,260	.....	4,260	3,706	.....	3,706
Family housing	245	(**)	244	2,643	1	2,642	2,413	1	2,413
Revolving and management funds:									
Public enterprise funds	(**)	(**)	(**)	2	2	(**)	2	2	(**)
Intragovernmental funds:									
Department of the Army	−342	.....	−342	−159	.....	−159	−95	.....	−95
Department of the Navy	−341	.....	−341	−610	.....	−610	−423	.....	−423
Department of the Air Force	−103	.....	−103	389	.....	389	−78	.....	−78
Defense agencies	−377	.....	−377	397	.....	397	−473	.....	−473
Other	24	29	−5	281	289	−8	248	285	−37
Proprietary receipts from the public	.....	−218	218	.....	512	−512	.....	674	−674
Intrabudgetary transactions	−234	.....	−234	−21	.....	−21	−22	.....	−22
Total—Department of Defense—Military	**20,830**	**−189**	**21,018**	**244,858**	**804**	**244,054**	**221,800**	**962**	**220,838**

Table continued on next page.

Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers:									
General investigations	$15	......	$15	$138	......	$138	$139	......	$139
Construction, general	94	......	94	1,033	......	1,033	1,103	......	1,103
Operation and maintenance, general	168	......	168	1,315	......	1,315	1,287	......	1,287
Flood control	39	......	39	368	......	368	432	......	432
Other	−1	......	−1	228	......	228	152	......	152
Proprietary receipts from the public	......	$6	−6	......	$71	−71	......	$71	−71
Total—Corps of Engineers	315	6	309	3,081	71	3,010	3,112	71	3,041
Military retirement fund:									
Payments to military retirement fund	......	......	......	9,500	......	9,500	......	......	......
Military retirement fund[3]	1,450	......	1,450	15,801	......	15,801	16,471	......	[2]16,471
Intrabudgetary transactions	......	......	......	−9,500	......	−9,500	......	......	......
Other	3	(**)	3	39	1	39	39	(**)	38
Proprietary receipts from the public	......	1	−1	......	6	−6	......	6	−6
Total—Department of Defense—Civil	**1,768**	**7**	**1,761**	**18,921**	**78**	**18,844**	**19,622**	**78**	**19,544**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	430	......	430	4,207	......	4,207	3,077	......	3,077
Impact aid	24	......	24	647	......	647	578	......	578
Special programs	5	......	5	526	......	526	632	......	632
Indian education	(**)	......	(**)	82	......	82	72	......	72
Total—Office of Elementary and Secondary Education	460	......	460	5,463	......	5,463	4,358	......	4,358
Office of Bilingual Education and Minority Languages Affairs	−4	......	−4	158	......	158	167	......	167
Office of Special Education and Rehabilitative Services:									
Education for the handicapped	69	......	69	1,018	......	1,018	953	......	953
Rehabilitation services and handicapped research	54	......	54	798	......	798	1,414	......	1,414
Office of Vocational and Adult Education	48	......	48	658	......	658	743	......	743
Office of Postsecondary Education:									
College housing loans	37	8	29	115	279	−164	123	362	−239
Student financial assistance	321	......	321	4,163	......	4,163	3,743	......	3,743
Guaranteed student loans	209	......	209	3,535	......	3,535	3,245	......	3,245
Higher education	20	......	20	405	......	405	419	......	419
Higher education facilities loans and insurance	(**)	......	(**)	5	......	5	−1	......	−1
Total—Office of Postsecondary Education	587	8	579	8,222	279	7,943	7,530	362	7,168
Office of Educational Research and Improvement	8	......	8	114	......	114	247	......	247
Special institutions	15	......	15	262	......	262	176	......	176
Departmental management	18	......	18	287	......	287	309	......	309
Proprietary receipts from the public	......	4	−4	......	19	−19	......	23	−23
Total—Department of Education	**1,255**	**12**	**1,244**	**16,980**	**298**	**16,682**	**15,897**	**386**	**15,511**
Department of Energy:									
Atomic energy defense activities	638	......	638	7,098	......	7,098	6,120	......	6,120
Energy programs:									
General science and research activities	66	......	66	707	......	707	650	......	650
Energy supply, R and D activities	139	......	139	2,106	......	2,106	2,207	......	2,207
Uranium supply and enrichment activities	176	......	176	1,711	......	1,711	1,864	......	1,864
Fossil energy research and development	30	......	30	336	......	336	325	......	325
Naval petroleum and oil shale reserves	23	......	23	153	......	153	136	......	136
Energy conservation	42	......	42	464	......	464	519	......	519
Strategic petroleum reserve	14	......	14	212	......	212	189	......	189
Nuclear waste disposal fund	37	......	37	317	......	317	271	......	271
Other	1,196	......	1,196	1,895	......	1,895	271	......	271
Total—Energy programs	1,724	......	1,724	7,901	......	7,901	6,433	......	6,433
Power Marketing Administration	247	76	171	1,386	1,486	−100	1,423	1,464	−40
Departmental administration	47	......	47	368	......	368	362	......	362
Proprietary receipts from the public	......	811	−811	......	5,081	−5,081	......	4,586	−4,586
Total—Department of Energy	**2,656**	**887**	**1,769**	**16,753**	**6,567**	**10,186**	**14,338**	**6,049**	**8,289**

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services:									
Public Health Service:									
Food and Drug Administration	$36	(**)	$35	$420	$3	$418	$393	$3	$390
Health Resources and Services Administration:									
Public enterprise funds	−1	$2	−3	20	3	16	27	1	26
Health resources and services	104	......	104	1,419	......	1,419	1,375	......	1,375
Indian health and facilities	76	......	76	872	......	872	790	......	790
Centers for Disease Control	25	......	25	368	......	368	360	......	360
National Institutes of Health:									
Cancer research	75	......	75	1,100	......	1,100	1,024	......	1,024
Heart, lung, and blood research	55	......	55	736	......	736	647	......	647
Arthritis, diabetes, and digestive and kidney diseases	30	......	30	483	......	483	431	......	431
Neurological and communicative disorders and stroke	25	......	25	348	......	348	306	......	306
Allergy and infectious diseases	26	......	26	333	......	333	293	......	293
General medical sciences	39	......	39	447	......	447	385	......	385
Child health and human development	18	......	18	285	......	285	257	......	257
Other research institutes	39	......	39	579	......	579	496	......	496
Research resources	23	......	23	264	......	264	228	......	228
Other	21	......	21	96	......	96	90	......	90
Total—National Institutes of Health	351	......	351	4,670	......	4,670	4,157	......	4,157
Alcohol, Drug Abuse, and Mental Health Administration	73	......	73	938	......	938	911	......	911
Office of Assistant Secretary for Health	7	......	7	180	......	180	175	......	175
Total—Public Health Service	669	2	668	8,888	6	8,882	8,188	4	8,184
Health Care Financing Administration:									
Grants to States for Medicaid	1,825	......	1,825	22,655	......	22,655	20,061	......	20,061
Payments to health care trust funds	1,401	......	1,401	19,246	......	19,246	17,917	......	17,917
Program management	9	......	9	60	......	60	127	......	127
Federal hospital insurance trust fund:									
Benefit payments	3,744	......	3,744	47,841	......	47,841	41,476	......	41,476
Administrative expenses and construction	58	......	58	813	......	813	632	......	632
Interest on normalized tax transfers	......	......	......	13	......	13	187	......	187
Total—FHI trust fund	3,802	......	3,802	48,667	......	48,667	42,295	......	42,295
Federal supplementary medical ins. trust fund:									
Benefit payments	2,059	......	2,059	21,808	......	21,808	19,473	......	19,473
Administrative expenses and construction	77	......	77	923	......	923	902	......	902
Total—FSMI trust fund	2,137	......	2,137	22,730	......	22,730	20,374	......	20,374
Total—Health Care Financing Administration	9,173	......	9,173	113,359	......	113,359	100,775	......	100,775
Social Security Administration:									
Payments to social security trust funds	410	......	410	3,818	......	3,818	6,878	......	6,878
Special benefits for disabled coal miners	86	......	86	1,040	......	1,040	1,057	......	1,057
Supplemental security income program	79	......	79	9,606	......	9,606	8,498	......	8,498
Assistance payments program	636	......	636	8,625	......	8,625	8,346	......	8,346
Child support enforcement	49	......	49	599	......	599	508	......	508
Low income home energy assistance	62	......	62	2,141	......	2,141	2,026	......	2,026
Refugee and entrant assistance	12	......	12	442	......	442	602	......	602
Payments to States from receipts for child support	(**)	......	(**)	(**)	......	(**)	(**)	......	(**)
Federal old-age and survivors insurance trust fund:									
Benefit payments	13,984	......	13,984	165,422	......	165,422	155,852	......	155,852
Administrative expenses and construction	105	......	105	1,588	......	1,588	1,585	......	1,585
Payment to railroad retirement account	......	......	......	2,310	......	2,310	2,404		2,404
Interest expense on interfund borrowings	115	......	115	1,571	......	1,571	1,883	......	1,883
Interest on normalized tax transfers	......	......	......	722	......	722	683	......	683
Total—FOASI trust fund	14,204	......	14,204	171,614	......	171,614	162,406	......	162,406

Table continued on next page.

Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services:—Continued									
Social Security Administration:—Continued									
Federal disability insurance trust fund:									
Benefit payments	$1,567	.....	$1,567	$18,657	.....	$18,657	$17,775	.....	$17,775
Administrative expenses and construction	48	.....	48	603	.....	603	585	.....	585
Payment to railroad retirement account	.....	.....	.....	43	.....	43	22	.....	22
Interest on normalized tax transfers	.....	.....	.....	69	.....	69	77	.....	77
Total—FDI trust fund	1,615	.....	1,615	19,372	.....	19,372	18,459	.....	18,459
Total—Social Security Administration	17,153	.....	17,153	217,258	.....	217,258	208,780	.....	208,780
Human Development Services:									
Social services block grant	183	.....	183	2,743	.....	2,743	2,789	.....	2,789
Human development services	195	.....	195	1,910	.....	1,910	1,819	.....	1,819
Family social services	42	.....	42	749	.....	749	659	.....	659
Work incentives	40	.....	40	279	.....	279	265	.....	265
Community services	31	.....	31	376	.....	376	358	.....	358
Other	(**)	(**)	(**)	2	$3	-1	8	$1	7
Total—Human Development Services	490	(**)	490	6,059	3	6,056	5,897	1	5,896
Departmental management	6	.....	6	220	.....	220	273	.....	273
Proprietary receipts from the public	.....	$473	-473	.....	5,586	-5,586	.....	4,960	-4,960
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal supplementary medical insurance trust fund	-1,355	.....	-1,355	-17,898	.....	-17,898	-16,811	.....	-16,811
Payments for tax and other credits[4]:									
Federal old-age and survivors insurance trust fund	-368	.....	-368	-3,488	.....	-3,488	-6,268	.....	-6,268
Federal disability insurance trust fund	-42	.....	-42	-330	.....	-330	-610	.....	-610
Federal hospital insurance trust fund	-46	.....	-46	-1,348	.....	-1,348	-1,106	.....	-1,106
Other	-115	.....	-115	-1,571	.....	-1,571	-1,840	.....	-1,840
Total—Department of Health and Human Services	**25,566**	**475**	**25,091**	**321,148**	**5,595**	**315,553**	**297,278**	**4,966**	**292,313**
Department of Housing and Urban Development:									
Housing Programs:									
Public enterprise funds:									
Federal Housing Administration fund	266	291	-25	3,305	3,959	-654	2,757	3,123	-366
Housing for the elderly or handicapped fund	44	37	7	936	435	501	1,036	375	661
Other	22	4	18	84	57	28	47	48	-1
Rent supplement payments	190	.....	190	66	.....	66	110	.....	110
Homeownership assistance	31	.....	31	280	.....	280	270	.....	270
Rental housing assistance	39	.....	39	607	.....	607	657	.....	657
Low-rent public housing	102	.....	102	2,204	.....	2,204	1,686	.....	1,686
College housing grants	-4	.....	-4	.....	.....	.....	20	.....	20
Lower income housing assistance	326	.....	326	6,817	.....	6,817	6,030	.....	6,030
Other	-11	.....	-11	-12	.....	-12	(**)	.....	(**)
Total—Housing Programs	1,004	333	671	14,288	4,450	9,837	12,614	3,546	9,068
Public and Indian Housing:									
Low-rent housing—loans and other expenses	45	21	24	14,314	428	13,885	1,705	594	1,111
Payments for operation of low-income housing projects	90	.....	90	1,205	.....	1,205	1,135	.....	1,135
Total—Public and Indian Housing	135	21	114	15,519	428	15,090	2,840	594	2,246
Government National Mortgage Association:									
Special assistance functions fund	(**)	.....	(**)	.....	.....	.....	2,498	1,680	818
Emergency mortgage purchase assistance	.....	.....	.....	.....	.....	.....	317	187	130
Management and liquidating functions fund	11	28	-17	568	1,122	-554	75	160	-85
Guarantees of mortgage-backed securities	2	19	-17	27	261	-234	21	206	-186
Participation sales fund	-28	.....	-28	-103	.....	-103	-65	.....	-65
Total—Government National Mortgage Association	-14	48	-62	493	1,383	-891	2,846	2,233	612
Community Planning and Development:									
Public enterprise fund	8	10	-2	107	138	-31	133	148	-15
Community development grants	311	.....	311	3,817	.....	3,817	3,819	.....	3,819
Urban development action grants	40	.....	40	497	.....	497	454	.....	454
Other	7	.....	7	26	.....	26	16	.....	16
Total—Community Planning and Development	366	10	356	4,447	138	4,309	4,422	148	4,274
Management and administration	1	.....	1	275	.....	275	283	1	282
Other	5	.....	5	51	.....	51	38	.....	38
Total—Department of Housing and Urban Development	**1,497**	**411**	**1,085**	**35,072**	**6,400**	**28,671**	**23,043**	**6,522**	**16,520**

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	$46	.....	$46	$449	...	$449	$418	..	$418
Payments in lieu of taxes	101	.....	101	103	.....	103	104	.....	104
Payments to States and counties for general purpose fiscal assistance	51	.....	51	132	...	132	53	.....	53
Other	10	......	10	101	...	101	95	.....	95
Minerals Management Service	50	......	50	699	......	699	893	.....	893
Office of Surface Mining Reclamation and Enforcement	25	......	25	272	.....	272	206	.....	206
Total—Land and minerals management	283	......	283	1,757	......	1,757	1,770	......	1,770
Water and science:									
Bureau of Reclamation:									
Construction program	92	$12	79	739	$83	656	680	$81	600
Operation and maintenance	12	.....	12	141	.....	141	135	...	135
Other	24	.....	24	156	.....	156	139	...	139
Geological Survey	25	......	25	451	.....	451	452	......	452
Bureau of Mines	15	2	13	169	24	145	175	19	156
Total—Water and science	168	15	154	1,657	106	1,550	1,581	99	1,482
Fish and wildlife and parks:									
United States Fish and Wildlife Service	33	.....	33	577	.....	577	498	......	498
National Park Service	108	....	108	1,071	.....	1,071	1,111	.....	1,111
Total—Fish and wildlife and parks	141	...	141	1,649	.....	1,649	1,609	.....	1,609
Bureau of Indian Affairs:									
Operation of Indian programs	68	....	68	954	.....	954	883	.....	883
Construction	11	...	11	122	......	122	124	.....	124
Indian tribal funds	35	.....	35	348	......	348	434	......	434
Other	8	2	6	63	11	52	63	9	54
Total—Bureau of Indian Affairs	122	2	120	1,487	11	1,476	1,503	9	1,494
Territorial and International Affairs	66	......	66	240	......	240	240	.....	240
Departmental offices	-5	.....	-5	88	.....	88	73	.....	73
Proprietary receipts from the public:									
Receipts from oil and gas leases, national petroleum reserve in Alaska	...	(**)	(**)	.....	4	-4	....	7	-7
Other	...	175	-175	.....	1,900	-1,900	.....	1,667	-1,667
Intrabudgetary transactions	......	......	.....	-28	.....	-28	-32	......	-32
Total—Department of the Interior	**776**	**192**	**584**	**6,850**	**2,022**	**4,828**	**6,744**	**1,783**	**4,961**
Department of Justice:									
General administration	-7	.....	-7	71	......	71	58	.....	58
United States Parole Commission	1	......	1	9	......	9	7	.....	7
Legal activities	79	.....	79	809	....	809	677	.....	677
Interagency law enforcement	(**)	.....	(**)	75	.....	75	103	.....	103
Federal Bureau of Investigation	88	.....	88	1,072	...	1,072	916	.....	916
Drug Enforcement Administration	27	.....	27	332	....	332	282	.....	282
Immigration and Naturalization Service	42	.....	42	557	....	557	513	.....	513
Federal Prison System	49	2	47	574	26	548	528	22	505
Office of Justice Programs	-3	......	-3	114	.....	114	125	....	125
Other	-1	3	-4	-6	61	-67	-19		-19
Total—Department of Justice	**275**	**6**	**269**	**3,606**	**87**	**3,518**	**3,188**	**22**	**3,165**
Department of Labor:									
Employment and Training Administration:									
Program administration	1	....	1	57	.....	57	77	...	77
Training and employment services	294	..	294	3,415	.....	3,415	3,196	..	3,196
Community service employment for older Americans	21	....	21	320	...	320	321	..	321
Federal unemployment benefits and allowances	12	...	12	51	...	51	34	..	34
State unemployment insurance and employment service operation	-44	..	-44	-27	...	-27	21	..	21
Advances to the unemployment trust fund and other funds	304	...	304	1,586	..	1,586	4,182	...	4,182
Other	-3	.....	-3	-18	.....	-18	-136		-136

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Labor:—Continued									
Employment and Training Administration —Continued									
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	$1,006	......	$1,006	$15,899	.....	$15,899	$16,678	......	$16,678
State administrative expenses	210	......	210	2,375	......	2,375	2,311	......	2,311
Federal administrative expenses	9	......	9	114	.....	114	87	......	87
Veterans employment and training	7	......	7	111	......	111	......	......	....
Interest on refunds of taxes	(**)	.....	(**)	6	......	6	129	......	129
Repayment of advances from the general fund	4,181	......	4,181	5,121	......	5,121	6,580	......	6,580
Interest on advances to the Employment Security Administration account	......	......	.....	......	......	......	1	......	1
Railroad-unemployment insurance:									
Railroad unemployment benefits	13	......	13	175	......	175	218	......	218
Administrative expenses	1	......	1	19	.....	19	12	......	12
Payment of interest on advances from railroad retirement account	......	......	.....	5	......	5	72	......	72
Total—Unemployment trust fund	5,428	......	5,428	23,826	....	23,826	26,089	......	26,089
Total—Employment and Training Administration	6,014	......	6,014	29,211	......	29,211	33,784	......	33,784
Labor-Management Services	6	......	6	59	......	59	56	......	56
Pension Benefit Guaranty Corporation	18	$10	7	192	$211	−19	152	$161	−10
Employment Standards Administration:									
Salaries and expenses	12	.....	12	178	....	178	173	......	173
Special benefits	90	......	90	201	.....	201	223	......	223
Black lung disability trust fund	332	......	332	898	.....	898	865	......	865
Special workers' compensation expenses	4	......	4	57	......	57	44	......	44
Occupational Safety and Health Administration	17	......	17	210	......	210	207	......	207
Mine Safety and Health Administration	11	......	11	151	.....	151	150	......	150
Bureau of Labor Statistics	11	......	11	142	.....	142	132	......	132
Departmental management	12	......	12	136	......	136	120	......	120
Proprietary receipts from the public	......	275	−275	......	283	−283	......	323	−323
Intrabudgetary transactions	−4,499	......	−4,499	−7,048	.....	−7,048	−10,899	....	−10,899
Total—Department of Labor	**2,026**	**285**	**1,741**	**24,387**	**494**	**23,893**	**25,006**	**485**	**24,522**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	91	.....	91	1,216	......	1,216	1,031	......	1,031
Acquisition, operation, and maintenance of buildings abroad	12	......	12	222	.....	222	198	......	198
Payment to Foreign Service retirement and disability fund	228	.....	228	335	....	335	337	......	337
Foreign Service retirement and disability fund	22	.....	22	210	......	210	212	......	212
Other	3	.....	3	23	......	23	22	......	22
Total—Administration of Foreign Affairs	355	......	355	2,006	.....	2,006	1,800	......	1,800
International Organizations and Conferences	2	......	2	540	.....	540	580	......	580
International Commissions	2	.....	2	24	.....	24	23	......	23
Migration and Refugee Assistance	22	.....	22	358	.....	358	336	......	336
International Narcotics Control	5	......	5	52	.....	52	33	......	33
Other	3	.....	3	45	.....	45	13	......	13
Proprietary receipts from the public	......	1	−1	......	1	−1	......	2	−2
Intrabudgetary transactions	−229	.....	−229	−379	......	−379	−380	......	−380
Total—Department of State	**159**	**1**	**159**	**2,646**	**1**	**2,645**	**2,405**	**2**	**2,403**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,393	.....	1,393	12,584	....	12,584	10,227	.....	10,227
Other	10	.....	10	17	..	17	18	5	13
Other programs	25	.....	25	282	....	282	329	......	329
Total—Federal Highway Administration	1,428	.....	1,428	12,883	......	12,883	10,574	5	10,569
National Highway Traffic Safety Administration:									
Operations and research	1	......	1	60	.....	60	56	......	56
Trust fund share of highway safety programs	15	.....	15	141	.....	141	140	.....	140
Other	(**)	.....	(**)	1	.....	1	2	.....	2

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Transportation:—Continued									
Federal Railroad Administration:									
Public enterprise funds	(**)	(**)	(**)	$30	$27	$3	$132	$81	$50
Northeast corridor improvement program	$11	.....	$11	153	.....	153	241	.....	241
Grants to National Railroad Passenger Corporation	1	.....	1	764	.....	764	1,957	.....	1,957
Other	14	.....	14	118	.....	118	255	.....	255
Total—Federal Railroad Administration	26	(**)	26	1,065	27	1,038	2,584	81	2,503
Urban Mass Transportation Administration:									
Formula grants	145	.....	145	1,409	.....	1,409	1,395	.....	1,395
Discretionary grants	13	.....	13	507	.....	507	233	.....	233
Other	111	.....	111	1,441	.....	1,441	2,151	.....	2,151
Federal Aviation Administration:									
Operations	(**)	.....	(**)	1,554	.....	1,554	2,313	.....	2,313
Other	28	(**)	28	127	(**)	127	141	(**)	140
Airport and airway trust fund:									
Grants-in-aid for airports	108	.....	108	789	.....	789	694	.....	694
Facilities and equipment	49	.....	49	425	.....	425	268	.....	268
Research, engineering and development	22	.....	22	262	.....	262	146	.....	146
Operations	187	.....	187	1,110	.....	1,110	257	.....	257
Total—Airport and airway trust fund	367	.....	367	2,586	.....	2,586	1,365	.....	1,365
Total—Federal Aviation Administration	395	(**)	395	4,267	(**)	4,267	3,819	(**)	3,819
Coast Guard:									
Operating expenses	147	.....	147	1,717	.....	1,717	1,657	.....	1,657
Acquisition, construction, and improvements	41	.....	41	444	.....	444	468	.....	468
Retired pay	26	.....	26	299	.....	299	311	.....	311
Other	5	(**)	4	121	4	116	97	5	92
Total—Coast Guard	219	(**)	218	2,580	4	2,575	2,533	5	2,529
Maritime Administration:									
Public enterprise funds	75	$11	64	475	233	242	199	177	22
Ship construction	(**)	.....	(**)	5	.....	5	14	.....	14
Operating-differential subsidies	28	.....	28	352	.....	352	384	.....	384
Other	5	.....	5	87	.....	87	87	.....	87
Other	15	1	13	163	12	151	136	13	124
Proprietary receipts from the public	.....	6	-6	.....	64	-64	.....	65	-65
Intrabudgetary transactions	(**)	.....	(**)	-8	.....	-8	-5	.....	-5
Total—Department of Transportation	**2,475**	**19**	**2,456**	**25,427**	**340**	**25,087**	**24,301**	**346**	**23,956**
Department of the Treasury:									
Office of the Secretary	-88	.....	-88	-486	.....	-486	-63	.....	-63
Office of Revenue Sharing:									
Salaries and expenses	1	.....	1	8	.....	8	7	.....	7
General revenue sharing	1	.....	1	4,584	.....	4,584	4,567	.....	4,567
Federal Law Enforcement Training Center	2	.....	2	18	.....	18	17	.....	17
Financial Management Service:									
Salaries and expenses	19	.....	19	242	.....	242	223	.....	223
Claims, judgements, and relief acts	14	.....	14	314	.....	314	236	.....	236
Advances to the railroad retirement account	.....	.....	.....	.....	.....	.....	525	.....	525
Payments to Synthetic Fuels Corporation	4	.....	4	41	.....	41	16	.....	16
Other	-2	.....	-2	95	.....	95	20	.....	20
Total—Financial Management Service	35	.....	35	692	.....	692	1,020	.....	1,020
Bureau of Alcohol, Tobacco and Firearms	14	.....	14	169	.....	169	158	.....	158
United States Customs Service	56	.....	56	755	.....	755	695	.....	695
Bureau of Engraving and Printing	-2	.....	-2	-35	.....	-35	-17	.....	-17
Bureau of the Mint	-11	.....	-11	66	.....	66	80	.....	80
Bureau of the Public Debt	8	.....	8	191	.....	191	181	.....	181

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:—Continued									
Internal Revenue Service:									
Salaries and expenses	$8	.....	$8	$106	...	106	$96	......	96
Processing tax returns	74	.....	74	1,042	.....	1,042	870	.....	870
Examinations and appeals	96	......	96	1,360	.....	1,360	1,251	.....	1,251
Investigation, collection and taxpayer service	76	......	76	1,055	......	1,055	1,019	.....	1,019
Payment where credit exceeds liability for tax	19	......	19	1,100	......	1,100	1,193	.....	1,193
Refunding internal revenue collections, interest	114	......	114	1,750	......	1,750	1,301	.....	1,301
Internal revenue collections for Puerto Rico	27	......	27	336	......	336	365	....	365
Other	(**)	(**)	(**)	3	$3	(**)	3	$3	(**)
Total—Internal Revenue Service	415	(**)	415	6,749	3	6,746	6,098	3	6,095
United States Secret Service	24	......	24	300	......	300	267	......	267
Comptroller of the Currency	13	$2	11	169	184	−15	161	160	(**)
Interest on the public debt:									
Public issues (accrual basis)	12,455	......	12,455	148,151	......	148,151	129,003	......	129,003
Special issues (cash basis)	752	......	752	30,794	......	30,794	24,835	.....	24,835
Total—Interest on the public debt	13,207	......	13,207	178,945	......	178,945	153,838	......	153,838
Proprietary receipts from the public	(**)	178	−178	(**)	3,060	−3,060	(**)	3,190	−3,190
Receipts from off-budget Federal entities	......	2,378	−2,378	.....	17,574	−17,574	......	15,378	−15,378
Intrabudgetary transactions	−625	......	−625	−6,263	......	−6,263	−7,172	......	−7,172
Total—Department of the Treasury	**13,049**	**2,558**	**10,491**	**185,863**	**20,820**	**165,043**	**159,837**	**18,732**	**141,105**
Environmental Protection Agency:									
Salaries and expenses	55	......	55	631	......	631	585	......	585
Research and development	17	......	17	161	......	161	164	.....	164
Abatement, control, and compliance	36	......	36	441	......	441	418	.....	418
Construction grants	181	......	181	2,900	......	2,900	2,623	.....	2,623
Hazardous substance response trust fund	34	......	34	382	......	382	267	......	267
Other	(**)	(**)	(**)	49	1	48	49	1	48
Proprietary receipts from the public	......	1	−1	......	8	−8	......	3	−3
Intrabudgetary transactions	.....	.....	....	−44	.....	−44	−44	......	−44
Total—Environmental Protection Agency	**324**	**1**	**322**	**4,520**	**9**	**4,511**	**4,061**	**4**	**4,057**
General Services Administration:									
Real property activities	130	.....	130	−205	.....	−205	9	......	9
Personal property activities	−11	.....	−11	90	.....	90	78	......	78
Office of Information Resources Management	25	.....	25	16	......	16	−2	....	−2
Federal property resources activities	−184	.....	−184	−201	......	−201	105	......	105
General activities	10	.....	10	150	(**)	150	141	(**)	140
Proprietary receipts from the public	....	−6	6	....	63	−63	......	120	−120
Other	....	−80	80	....	(**)	(**)	.....	18	−18
Total—General Services Administration	**−30**	**−86**	**56**	**−150**	**63**	**−214**	**330**	**138**	**192**
National Aeronautics and Space Administration:									
Research and development	183	...	183	2,118	....	2,118	2,792	......	2,792
Space flight, control, and data communications	295	.....	295	3,707	.....	3,707	2,915	......	2,915
Construction of facilities	15	.....	15	170	....	170	109	....	109
Research and program management	100	......	100	1,322	....	1,322	1,232	....	1,232
Other	.....	......	.....	(**)	......	(**)	......	......	....
Total—National Aeronautics and Space Administration	**593**	**......**	**593**	**7,318**	**......**	**7,318**	**7,048**	**......**	**7,048**
Office of Personnel Management:									
Salaries and expenses	−23	.....	−23	111	.....	111	99	....	99
Government payment for annuitants, employees health benefits	129	.....	129	1,485	.....	1,485	1,392	.....	1,392
Payment to civil service retirement and disability fund	16,090	......	16,090	16,091	......	16,091	15,358	.....	15,358
Civil service retirement and disability fund	1,985	.....	1,985	23,092	.....	23,092	21,891	......	21,891
Employees health benefits fund	533	549	−16	6,573	6,833	−260	6,518	6,568	−50
Employees life insurance fund	85	75	10	902	1,576	−674	753	1,457	−704
Retired employees health benefits fund	1	1	(**)	11	15	−4	17	17	(**)
Other	8	....	8	13	......	13	−2	......	−2
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	−16,090	.....	−16,091	−16,091	......	−16,091	−15,358	.....	−15,358
Other	−3	.....	−3	−35	......	−35	−34	......	−34
Total—Office of Personnel Management	**2,715**	**625**	**2,090**	**32,151**	**8,424**	**23,727**	**30,633**	**8,042**	**22,590**

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Small Business Administration:									
Public enterprise funds:									
Business loan and investment fund	$265	$94	$171	$1,163	$889	$275	$1,192	$802	$390
Disaster loan fund	27	49	-22	525	798	-273	404	823	-419
Other	4	2	2	31	18	14	41	16	26
Salaries and expenses	19	...	19	267	......	267	258	......	258
Other	(**)	.....	(**)	1	(**)	1	.....	......	....
Total—Small Business Administration	315	144	170	1,987	1,704	283	1,896	1,641	255
Veterans Administration:									
Public enterprise funds:									
Loan guaranty revolving fund	134	64	70	1,637	1,359	278	1,523	1,153	370
Direct loan revolving fund	1	5	-4	22	63	-41	26	71	-45
Other	30	35	-5	425	454	-29	431	480	-49
Compensation and pensions	45	.....	45	14,217	......	14,217	13,918	......	13,918
Readjustment benefits	34	...	34	1,227	......	1,227	1,470	......	1,470
Medical care	715	...	715	8,722	......	8,722	8,124	......	8,124
Medical and prosthetic research	14	......	14	215	......	215	186	......	186
General operating expenses	19	......	19	724	......	724	704	....	704
Construction projects	40	......	40	521	......	521	475	.....	475
Post-Vietnam era veterans education account	9	......	9	182	......	182	156	.....	156
Insurance funds:									
National service life	62	...	62	956	......	956	922	......	922
United States government life	2	.....	2	46	......	46	52	......	52
Veterans special life	5	4	1	68	135	-67	69	127	-58
Other	-2	...	-2	97	....	97	84	......	84
Proprietary receipts from the public:									
National service life	......	34	-34	...	421	-421	......	441	-441
United States government life	......	(**)	(**)	......	(**)	(**)	......	(**)	(**)
Other	-2	26	-28	-4	212	-216	......	235	-235
Intrabudgetary transactions	-1	....	-1	-80	......	-80	-42	...	-42
Total—Veterans Administration	1,107	168	939	28,977	2,644	26,333	28,100	2,508	25,593
Independent agencies:									
Action	7	....	7	129	....	129	133	......	133
Board for International Broadcasting	7	...	7	97	.....	97	105	.....	105
Consumer Product Safety Commission	2	...	2	35	....	35	34	......	34
Corporation for Public Broadcasting	......	....	......	151	....	151	138	......	138
District of Columbia:									
Federal payment	14	..	14	548	.....	548	486	.....	486
Loans and repayable advances	......	...	......	......	311	-311	115	31	84
Equal Employment Opportunity Commission	12	..	12	158	.....	158	152	.....	152
Export-Import Bank of the United States	623	284	339	3,790	4,174	-384	4,485	3,418	1,068
Federal Communications Commission	9	....	9	94	.....	94	87	.....	87
Federal Deposit Insurance Corporation	406	453	-48	4,209	6,151	-1,942	6,842	7,089	-248
Federal Emergency Management Agency:									
Public enterprise funds	13	28	-16	241	346	-105	521	362	159
Salaries and expenses	8	...	8	133	....	133	125	.....	125
Emergency management and planning assistance	20	...	20	372	.....	372	248	.....	248
Emergency food distribution and shelter program	.....	...	......	69	....	69	58	....	58
Other	.....	...	.....	(**)	..	(**)	(**)	......	(**)
Federal Home Loan Bank Board:									
Public enterprise funds:									
Federal Home Loan Bank Board revolving fund	3	3	(**)	84	84	(**)	75	75	1
Federal Savings and Loan Insurance Corp. fund	79	73	6	3,141	2,726	414	1,007	1,569	-562
Other	....	..	......	.....	....	......	...	....	.....
Federal Trade Commission	5	..	5	65	..	65	66	....	66
Intragovernmental agencies:									
Washington Metropolitan Area Transit Authority	....	....	......	71	.....	71	33	......	33
Other	(**)	(**)	(**)	8	2	6	8	2	6
Interstate Commerce Commission	3	..	3	50	..	50	56	.....	56
Legal Services Corporation	26	..	26	300	..	300	271	....	271
Merit Systems Protection Board	2	...	2	23	...	23	26	....	26
National Archives and Record Administration	8	....	8	100	(**)	100	86	(**)	86
National Credit Union Administration:									
Central liquidity facility	9	12	-4	1,079	1,125	-47	678	453	225
Other	4	28	-24	53	861	-808	85	117	-32

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Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Independent agencies:—Continued									
National Foundation on the Arts and the Humanities:									
National Endowment for the Arts	$15	....	$15	$149	....	$149	$145	....	$145
National Endowment for the Humanities	14	....	14	149	....	149	140	....	140
Institute of Museum Services	(**)	....	(**)	19	....	19	17	....	17
National Labor Relations Board	10	....	10	134	....	134	130	....	130
National Science Foundation	138	....	138	1,313	....	1,313	1,198	....	1,198
National Transportation Safety Board	2	....	2	22	....	22	21	....	21
Nuclear Regulatory Commission	36	....	36	468	....	468	462	....	462
Panama Canal Commission	34	$36	−2	413	$416	−3	381	$406	−25
Postal Service (payment to the Postal Service fund)	(**)	....	(**)	1,210	....	1,210	879	....	879
Railroad Retirement Board:									
Federal windfall subsidy	33	....	33	400	....	400	413	....	413
Payment to railroad unemployment insurance trust fund	1	....	1	−1	....	−1	−73	....	−73
Milwaukee railroad restructuring, administration	1	....	1	(**)	....	(**)	1	....	1
Railroad retirement accounts:									
Social security equivalent benefit account	311	....	311	3,596	....	3,596	....	....	....
Benefits payments and claims	177	....	177	2,216	....	2,216	5,681	....	5,681
Advances to the railroad retirement account from the FDI trust fund	(**)	....	(**)	−1	....	−1	−1	....	−1
Disbursements for the payment of FOASI benefits	(**)	....	(**)	−1	....	−1	−1	....	−1
Disbursements for the payment of FDI benefits	(**)	....	(**)	(**)	....	(**)	(**)	....	(**)
Administrative expenses	4	....	4	49	....	49	44	....	44
Interest on refunds of taxes	(**)	....	(**)	7	....	7	4	....	4
Intrabudgetary transactions:									
Railroad retirement account:									
Payments to railroad retirement trust funds	....	....	....	−2,131	....	−2,131	−2,392	....	−2,392
Interest on advances to railroad unemployment insurance account	....	....	....	−5	....	−5	−72	....	−72
Total—Railroad Retirement Board	527	....	527	4,129	....	4,129	3,606	....	3,606
Securities and Exchange Commission	7	....	7	103	....	103	92	....	92
Smithsonian Institution	16	....	16	226	....	226	211	....	211
Tennessee Valley Authority	440	422	18	5,603	4,688	914	5,192	4,841	351
United States Information Agency	75	(**)	74	695	(**)	694	574	(**)	574
United States Railway Association	(**)	....	(**)	3	....	3	2	....	2
Other independent agencies	23	2	21	398	24	374	374	35	339
Total—Independent agencies	**2,598**	**1,344**	**1,254**	**30,031**	**20,910**	**9,121**	**29,344**	**18,397**	**10,946**
Undistributed offsetting receipts:									
Other interest	....	1	−1	....	2	−2	....	18	−18
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	....	....	....	(**)	....	(**)	(**)	....	(**)
The Judiciary:									
Judicial survivors annuity fund	(**)	....	(**)	−2	....	−2	−2	....	−2
Department of Defense—Military:									
Education Benefits fund	−17	....	−17	−61	....	−61	....	....	....
Department of Defense—Civil:									
Military retirement fund[3]	−1,546	....	−1,546	−16,964	....	−16,964	−16,503	....	[2]−16,503
Department of Health and Human Services:									
Federal old-age and survivors insurance trust fund	−207	....	−207	−2,288	....	−2,288	−1,852	....	−1,852
Federal disability insurance trust fund	−20	....	−20	−221	....	−221	−192	....	−192
Federal hospital insurance trust fund	−128	....	−128	−1,449	....	−1,449	−1,306	....	−1,306
Department of State:									
Foreign Service retirement and disability fund	−5	....	−5	−40	....	−40	−37	....	−37
Office of Personnel Management:									
Civil Service retirement and disability fund	−301	....	−301	−3,873	....	−3,873	−3,522	....	−3,522
Receipts from off-budget Federal agencies:									
Office of Personnel Management:									
Civil service retirement and disability fund	−1,445	....	−1,445	−2,461	....	−2,461	−1,848	....	−1,848
Subtotal	−3,670	....	−3,670	−27,359	....	−27,359	−25,263	....	−25,263

Table continued on next page.

Table 5. Outlays of the U.S. Government, September 1985 and Other Periods (in millions)—Continued

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	...	...	...	-$10	...	-$10	-$8	...	-$8
Department of Defense—Civil:									
Education benefits fund	$3	...	$3	8	...	8	...	...	...
Military retirement fund	32	...	32	-962	...	-962	...	...	...
Soldiers' and Airmen's Home permanent fund	-4	...	-4	-17	...	-17	-15	...	-15
Corps of Engineers	-2	...	-2	-18	...	-18	-8	...	-8
Department of Health and Human Services:									
Federal old-age and survivors insurance trust fund	-144	...	-144	-3,537	...	-3,537	-2,752	...	-2,752
Federal disability insurance trust fund	-11	...	-11	-580	...	-580	-558	...	-558
Federal hospital insurance trust fund	-4	...	-4	-2,016	...	-2,016	-1,686	...	-1,686
Federal supplementary medical insurance trust fund	-9	...	-9	-1,154	...	-1,154	-807	...	-807
Department of Labor:									
Unemployment trust fund	-12	...	-12	-1,242	...	-1,242	-781	...	-781
Department of State:									
Foreign Service retirement and disability fund	(**)	...	(**)	-245	...	-245	-178	...	-178
Department of Transportation:									
Airport and airway trust fund	-3	...	-3	-746	...	-746	-546	...	-546
Highway trust fund	-26	...	-26	-1,313	...	-1,313	-1,116	...	-1,116
Environmental Protection Agency:									
Post-closure liability trust fund	(**)	...	(**)	-1	...	-1	-1	...	-1
Office of Personnel Management fund:									
Civil Service retirement and disability fund	-33	...	-33	-13,017	...	-13,017	-10,813	...	-10,813
Veterans Administration:									
United States government life insurance fund	(**)	...	(**)	-21	...	-21	-23	...	-23
National service life insurance fund	-1	...	-1	-882	...	-882	-806	...	-806
Independent agencies:									
Railroad Retirement Board:									
Railroad retirement account	-27	...	-27	-191	...	-191	-169	...	-169
Other	-63	...	-63	-125	...	-125	-111	...	-111
Subtotal	-304	...	-304	-26,070	...	-26,070	-20,376	...	-20,376
Rents and royalties on the Outer Continental Shelf lands	...	$827	-827	...	$5,542	-5,542	..	$6,694	-6,694
Total—Undistributed offsetting receipts	**-3,974**	**828**	**-4,802**	**-53,429**	**5,544**	**-58,973**	**-45,639**	**6,712**	**-52,351**
Total—Budget outlays	**83,691**	**10,500**	**73,191**	**1,057,892**	**121,083**	**936,809**	**960,919**	**119,119**	**841,800**
Off-budget Federal entities:									
Federal Financing Bank	2,792	2,761	31	38,496	31,156	7,339	38,980	31,703	7,277
Petroleum acquisition and transportation, strategic petroleum reserve	32	...	32	1,621	...	1,621	2,329	...	2,329
Postal Service	3,470	2,174	1,296	30,017	29,875	142	27,251	26,890	360
Rural electrification and telephone revolving fund	222	199	24	1,514	1,512	1	1,091	1,092	-1
Rural Telephone Bank	10	12	-2	148	156	-8	164	119	45
Synthetic Fuels Corporation fund	4	4	...	38	38	...	19	19	...
U.S. Railway Association	...	...	...	27	4	22	3	17	-14
Total—Off-budget Federal entities	**6,531**	**5,150**	**1,381**	**71,859**	**62,742**	**9,118**	**69,836**	**59,840**	**9,996**
Total—Outlays	**90,222**	**15,650**	**74,572**	**1,129,751**	**183,825**	**945,927**	**1,030,755**	**178,959**	**851,796**

MEMORANDUM

Receipts offset against outlays (In millions)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	$35,320	$36,744
Receipts from off-budget Federal entities	17,574	15,378
Intrabudgetary transactions	124,293	113,307
Total receipts offset against outlays	177,187	165,429

[1]Includes an adjustment to prior reporting

[2]In order to make the 1984 data of the Military Retirement Fund as comparable as feasible to the 1985 data, the cash retirement benefits for 1984 are shown in DoD—Civil (and the income security function) while imputed accruals are included in the DoD—Military (and the national defense function) outlays and offset in undistributed offsetting receipts.

[3]Effective October 1, 1984 military retirement benefits are being paid from a new retirement trust fund in the Department of Defense, Civil (and in the income security function). The Department of Defense, Military (and national defense function) is being charged for the currently accruing benefits for future retirees. These intrabudgetary charges are paid into an offsetting receipt account that is included in undistributed offsetting receipts (employer share, employee retirement) in both the agency and functional table.

[4]Includes FICA and SECA tax credits, non-contributary military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

... No transactions.

(**)Less than $500,000.

Note: Details may not add to totals because of rounding.

Source: Financial Management Service, Department of the Treasury.

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, September 1985 and Other Periods (in millions)

Assets and Liabilities Directly Related to Budget and Off-budget Activity	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 financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	$5,090	$250,837	$195,056	$1,572,267	$1,818,013	$1,823.103
Federal Financing Bank	...	...	...	(**)	(**)	(**)
Total public debt securities	5,090	250,837	195,056	1,572,267	1,818,013	1,823,103
Agency securities, issued under special financing authorities (See Schedule B. For other agency borrowing, see Schedule C.)	–8	–115	–194	4,481	4,374	4,366
Total federal securities	5,082	250,722	194,862	1,576,748	1,822,387	1,827,470
Deduct:						
Federal securities held as investments of government accounts (See Schedule D)	–893	53,453	24,045	264,159	318,505	317,612
Total borrowing from the public	5,975	197,269	170,817	1,312,589	1,503,882	1,509,857
Accrued interest payable to the public	2,307	–650	9,098	27,359	24,402	26,709
Allocations of special drawing rights	118	296	–283	4,895	5,073	5,191
Deposit funds	–2	2,093	1,930	12,292	14,387	14,385
Miscellaneous liability accounts (includes checks outstanding etc.)	–727	945	–1,124	10,693	12,366	11,639
Total liability accounts	**7,670**	**199,953**	**180,439**	**1,367,828**	**1,560,110**	**1,567,780**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash[1]:						
Federal Reserve account	517	–4,340	–8,043	8,514	3,656	4,174
Tax and loan note accounts	4,701	–9,027	1,413	21,913	8,185	12,886
Balance	5,218	–13,367	–6,631	30,426	11,841	17,060
Special drawing rights:						
Total holdings	182	1,293	–74	5,554	6,665	6,847
SDR certificates issued to Federal Reserve Banks	...	...	...	–4,618	–4,618	–4,618
Balance	182	1,293	–74	936	2,047	2,229
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	...	...	5,528	19,699	19,699	19,699
Maintenance of value adjustments	395	1,082	–951	–1,799	–1,111	–717
Letter of credit issued to IMF	–25	46	–2,451	–7,992	–7,921	–7,946
Dollar deposits with the IMF	–3	–1	–10	–50	–49	–51
Receivable/payable (–) for interim maintenance of value adjustments	–178	–922	249	379	–366	–543
Balance	189	204	2,365	10,237	10,252	10,442
Loans to International Monetary Fund	12	–127	–167	1,364	1,225	1,236
Other cash and monetary assets	647	1,324	–1,129	7,548	8,226	8,872
Total cash and monetary assets	6,248	–10,673	–5,636	50,512	33,591	39,839
Miscellaneous asset accounts	751	–722	1,476	16,088	14,614	15,365
Total asset accounts	**7,000**	**–11,396**	**–4,160**	**66,600**	**48,204**	**55,204**
Excess of liabilities (+) or assets (–)	**+670**	**+211,348**	**+184,599**	**+1,301,228**	**+1,511,906**	**+1,512,576**
Transactions not applied to current year's surplus or deficit (See Schedule A for details)	94	582	740	...	488	582
Total budget and off-budget financing [Financing of deficit (+) or disposition of surplus (–)]	**+764**	**+211,931**	**+185,339**	**+1,301,228**	**+1,512,394**	**+1,513,159**

[1]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 the 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.

....No transactions.

(**)Less than $500,000.

Note: Details may not add to totals because of rounding.

Source: Financial Management Service, Department of the Treasury.

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, September 1985 and Other Periods (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	$1,511,906	$1,301,228	$1,116,629
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Excess of liabilities beginning of period (current basis)	1,511,906	1,301,228	1,116,629
Budget surplus (–) or deficit:			
Based on composition of unified budget in prior fiscal year	–617	202,813	175,342
Changes in composition of unified budget	....	....	....
Budget surplus (–) or deficit (Table 3)	–617	202,813	175,342
Off-budget surplus (–) or deficit (Table 3)	1,381	9,118	9,996
Total budget surplus (–) or deficit (Table 3)	764	211,931	185,339
Transactions not applied to current year's surplus or deficit:			
Seigniorage	–27	–516	–498
Increment on gold	....	....	....
Proceeds from currency	....	....	....
Profit on sale of gold	–67	–67	–242
Net gain (–)/loss for IMF loan valuation adjustment	....	....	....
Total—transactions not applied to current year's surplus or deficit	–94	–582	–740
Excess of liabilities close of period	**1,512,576**	**1,512,576**	**1,301,228**

....No transactions.
(**)Less than $500,000.
Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.

Table 6. Schedule B—Securities issued by Federal Agencies Under Special Financing Authorities, September 1985 and Other Periods (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	−$6	−$25	−$31	$34	$15	$9
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	−7	−71	−110	153	89	82
Department of Housing and Urban Development:						
Federal Housing Administration	1	−22	−67	140	116	117
Department of the Interior:						
Bureau of Land Management	3	3	14	14	15	17
Department of Transportation:						
Coast Guard:						
Family housing mortgages	(**)	(**)	(**)	(**)	(**)	(**)
Obligations not guaranteed by the United States, issued by:						
Department of Defense:						
Homeowners assistance mortgages	1	1	(**)	(**)	(**)	1
Department of Housing and Urban Development:						
Government National Mortgage Association	...	...	...	2,165	2,165	2,165
Independent agencies:						
Postal Service	...	...	...	250	250	250
Tennessee Valley Authority	...	...	...	1,725	1,725	1,725
Total agency securities	**−8**	**−115**	**−194**	**4,481**	**4,374**	**4,366**

....No transactions.
(**)Less than $500,000.
Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, September 1985 and Other Periods (in millions)

Classification	Transactions			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	
Borrowing from the Treasury:						
Commodity Credit Corporation	$1,162	$5,202	−$2,798	$18,609	$22,649	$23,811
Commerce, Fishing Vessels, NOAA	−21	−18	9	18	21	......
Federal Emergency Management Agency:						
National insurance development fund	....	14	5	55	69	69
Federal Financing Bank	757	8,166	8,754	144,909	152,317	153,075
Federal Housing Administration:						
General insurance	−80	−260	−220	1,790	1,610	1,530
Special risk insurance	−15	−75	−40	1,984	1,924	1,909
General Services Administration:						
Pennsylvania Avenue Development Corporation	....	3	−1	55	58	58
Rural Communication Development Fund	....	5	4	18	23	23
Rural Electrification Administration	−102	....	....	7,865	7,967	7,865
Rural Telephone Bank	....	8	30	751	759	759
Secretary of Agriculture, Farmers Home Administration:						
Rural housing insurance fund	340	405	760	3,381	3,446	3,786
Agricultural credit insurance fund	....	1,734	1,561	4,486	6,220	6,220
Rural development insurance fund	50	210	241	1,516	1,676	1,726
Federal Crop Ins. Corp	....	113	....	....	113	113
Secretary of Education:						
Alternative Fuel Production, DOE	1,170	1,170	......	....	....	1,170
College housing loans	−62	−62	....	2,687	2,687	2,625
Secretary of Energy:						
Bonneville Power Administration	−65	−65	240	1,405	1,405	1,340
Secretary of Housing and Urban Development:						
Housing for the elderly or handicapped	....	425	665	4,376	4,801	4,801
Low-Rent Public housing	46	13,727	1,000	1,000	14,681	14,727
Urban renewal fund	....	−8	8	8	......	....
Secretary of the Interior:						
Bureau of Mines, helium fund	....	....	....	252	252	252
Railroad retirement account	....	−944	2,279	2,279	1,335	1,335
Railroad retirement social security equivalent fund	168	1,717	......	....	1,549	1,717
Secretary of Transportation:						
Aircraft purchase loan guarantee program	....	13	−79	......	13	13
Federal ship revolving fund	45	130	......	......	85	130
Railroad revitalization and improvement	....	....	−1	....	......	......
Rail service assistance	....	....	−6	....	....	......
Regional Rail Reorganization	....	−64	−199	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	**3,393**	**31,546**	**12,212**	**199,408**	**227,560**	**230,954**
Borrowing from the Federal Financing Bank:						
Export-Import Bank of the United States	−319	−278	1,015	15,690	15,729	15,410
National Credit Union Administration	−4	−50	226	269	226	222
Postal Service	970	603	−67	1,087	720	1,690
Tennessee Valley Authority	106	1,126	320	13,435	14,455	14,561
U.S. Railway Association	....	23	−73	51	74	74
Total borrowing from the Federal Financing Bank	**753**	**1,424**	**1,421**	**30,532**	**31,204**	**31,957**

Note: Includes only amounts loaned to Federal agencies in lieu of agency debt issuances 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.

Note: Details may not add to totals because of rounding.

Source: Financial Management Service, Department of the Treasury.

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, September 1985 and Other Periods (in millions)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current 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	....	$6	....	....	$6	$6
Department of Commerce	$6	102	-$1	$6	102	108
Department of Energy	-15	1,366	....	....	1,382	1,366
Department of Health and Human Services	1	5	2	4	8	9
Department of Housing and Urban Development:						
Federal Housing Administration:						
Federal Housing Administration fund:						
Public debt securities	-12	718	427	3,065	3,796	3,783
Agency securities	(**)	-4	-5	140	135	135
Government National Mortgage Association:						
Emergency mortgage purchase assistance:						
Agency securities	....	-11	....	11	....	....
Special assistance function fund:						
Agency securities	....	-11	-13	11	....	....
Management and liquidating functions fund:						
Public debt securities	13	682	84	84	752	766
Agency securities	(**)	84	-1	1	85	85
Guarantees of mortgage-backed securities:						
Public debt securities	18	299	185	717	998	1,015
Agency securities	....	-64	1	67	3	3
Participation sales fund:						
Public debt securities	39	312	433	1,776	2,050	2,088
Agency securities	....	....	....	12	12	12
Housing Management:						
Community disposal operations fund:						
Agency securities	....	(**)	....	(**)	....	....
Department of the Interior	83	894	823	6,528	7,338	7,422
Department of Labor	-8	19	-1	284	311	303
Department of Transportation	1	-123	-1	252	128	129
Department of the Treasury	-53	-1,163	729	3,243	2,133	2,080
Veterans Administration:						
Veterans reopened insurance fund	-6	3	42	632	641	635
Independent agencies:						
Export-Import Bank of the United States	-702	46	-84	27	774	73
Federal Emergency Mangement Agency:						
National insurance development fund	16	150	....	....	134	150
Federal Savings and Loan Insurance Corporation:						
Public debt securities	(**)	-414	562	6,172	5,758	5,758
Agency securities	....	....	....	67	67	67
National Credit Union Administration	22	806	32	325	1,109	1,131
Other	17	151	87	983	1,117	1,134
Total public debt securities	-581	3,858	3,320	24,098	28,537	27,956
Total agency securities	(**)	-7	-17	310	302	302
Total Federal funds	**-581**	**3,851**	**3,303**	**24,408**	**28,839**	**28,258**
Trust funds:						
Legislative Branch:						
United States Tax Court	(**)	(**)	(**)	1	2	2
Library of Congress	-1	-1	1	2	3	1
The Judiciary:						
Judicial survivors annuity fund	(**)	11	10	91	102	102
Funds Appropriated to the President	....	(**)	1	1	1	1
Department of Agriculture	-12	-57	-48	60	16	4
Department of Commerce	(**)	(**)	(**)	....	(**)	(**)
Department of Defense—Military	8	64	42	138	194	202
Department of Defense—Civil	75	11,692	....	....	11,617	11,692
Department of Health and Human Services:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	-466	3,744	1,721	27,224	31,434	30,968
Federal disability insurance trust fund	-319	1,048	-633	4,656	6,023	5,704
Federal hospital insurance trust fund:						
Public debt securities	347	4,194	3,468	16,527	20,375	20,721
Agency securities	....	....	....	455	455	455
Federal supplementary medical insurance trust fund	-254	1,620	2,159	9,117	10,991	10,736
Other	(**)	6	6	25	31	31

Table continued on next page.

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, September 1985 and Other Periods (in millions)—Continued

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current 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	$20	−$19	−$187	$214	$175	$195
Department of Labor:						
Unemployment trust fund	−1,366	4,611	4,001	12,397	18,375	17,009
Other	9	1	6	23	15	24
Department of State:						
Foreign service retirement and disability fund	215	484	424	1.978	2,247	2,462
Other	(**)	(**)	−1	(**)	(**)	(**)
Department of Transportation:						
Airport and airway trust fund	−124	977	1,640	6,434	7,534	7,410
Highway trust fund	−1,026	1,102	1,359	10,840	12,968	11,942
Other	....	(**)	(**)	(**)	(**)	(**)
Department of the Treasury	9	182	(**)	84	256	265
Environmental Protection Agency	20	16	108	685	681	701
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	2,803	15,449	2,468	111,829	124,475	127,278
Agency securities	....	....	....	175	175	175
Employees health benefits fund	11	261	59	913	1,163	1,174
Employees life insurance fund	−11	674	707	5,966	6,650	6,640
Retired employees health benefits fund	....	4	(**)	1	4	4
Veterans Administration:						
Government life insurance fund	−3	−25	−28	294	272	269
National service life insurance:						
Public debt securities	−38	336	330	8,960	9,334	9,296
Agency securities	....	....	....	135	135	135
Veterans special life insurance fund	−1	67	59	875	943	942
General Post Fund National Homes	....	10	4	7	17	17
Independent agencies:						
Federal Deposit Insurance Corporation	111	1,934	243	14,195	16,019	16,130
Harry S. Truman Memorial Scholarship Trust Fund	(**)	3	2	44	47	47
Japan-United States Friendship Commission	2	1	(**)	17	17	18
Railroad Retirement Board	5	1,135	2,768	3,097	4,226	4,232
Other	1	−5	7	11	5	6
Total public debt securities	14	49,518	20,696	236,708	286,211	286,226
Total agency securities	....	....	....	765	765	765
Total trust funds	**14**	**49,518**	**20,696**	**237,473**	**286,976**	**286,991**
Off-budget Federal entities:						
Postal Service	−326	85	47	2,277	2,688	2,362
Rural electrification and telephone revolving fund	....	(**)	−2	1	1	1
Total public debt securities	−326	84	45	2,279	2,689	2,363
Total off-budget Federal entities	**−326**	**84**	**45**	**2,279**	**2,689**	**2,363**
Grand total	**−893**	**53,453**	**24,045**	**264,159**	**318,505**	**317,612**

....No transactions
(**)Less than $500,000
Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1985 (in millions)

Classification	Oct.	Nov.	Dec	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Prior Fiscal Year To Date
Receipts														
Individual income taxes	$25,624	$24,792	$27,054	$37,852	$23,769	$15,254	$51,533	$3,611	$34,764	$26,252	$25,770	$34,643	$330,918	$295,955
Corporation income taxes	937	1,122	11,531	2,779	1,753	8,417	8,855	1,230	10,788	1,892	1,078	10,950	61,331	56,893
Social insurance taxes and contributions:														
Employment taxes and contributions	17,418	16,752	17,328	21,661	20,097	19,655	24,649	19,794	20,182	21,136	18,617	21,325	238,288	212,184
Unemployment insurance	1,323	2,346	397	1,328	2,615	515	3,062	8,192	501	1,276	3,928	275	25,758	25,138
Other retirement contributions	366	426	403	406	368	381	391	437	367	441	398	376	4,759	4,580
Excise taxes	3,264	3,151	2,907	3,267	2,585	2,739	2,700	3,235	2,733	3,409	2,544	3,331	35,865	37,361
Estate and gift taxes	582	495	469	605	504	430	671	566	428	614	560	497	6,422	6,010
Customs duties	1,150	989	922	1,085	842	998	939	946	997	1,125	1,151	936	12,079	11,370
Miscellaneous receipts	1,586	1,421	1,395	1,471	1,488	1,218	1,793	1,783	1,391	1,826	1,730	1,473	18,576	16,965
Total—budget receipts this year	**52,251**	**51,493**	**62,404**	**70,454**	**54,021**	**49,606**	**94,593**	**39,794**	**72,151**	**[1]57,970**	**55,776**	**73,808**	**733,996**	.....
Total—budget receipts prior year	*45,157*	*46,203*	*58,044*	*62,537*	*47,886*	*44,464*	*80,179*	*37,460*	*69,282*	*52,017*	*55,209*	*68,019*	......	*666,457*
Outlays														
Legislative Branch	146	116	93	169	104	139	129	131	165	149	141	122	1,610	1,579
The Judiciary	79	67	96	66	60	99	119	75	63	74	103	66	966	866
Executive Office of the President	11	9	10	11	8	7	10	9	7	14	9	8	111	95
Funds Appropriated to the President:														
International security assistance	1,498	433	733	640	595	540	712	384	640	346	292	1,504	8,318	5,034
International development assistance	267	321	172	422	136	110	289	428	100	226	436	105	3,012	2,819
Other	-94	495	57	209	-127	27	-313	119	-347	-393	499	-185	-52	628
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,742	1,817	2,941	3,414	1,663	1,511	2,172	425	385	1,105	1,343	930	19,448	8,450
Other	2,848	2,360	2,206	2,157	2,321	2,374	2,987	2,797	2,668	2,717	2,529	2,183	30,147	28,977
Department of Commerce	177	163	181	201	140	157	170	150	248	228	158	167	2,140	1,893
Department of Defense:														
Military:														
Department of the Army	5,121	4,677	5,514	5,163	5,225	5,253	5,368	6,044	5,378	5,952	6,142	5,713	65,550	54,644
Department of the Navy	6,547	6,719	6,649	6,288	6,701	6,641	6,716	7,147	7,032	7,280	7,087	7,400	82,207	70,306
Department of the Air Force	5,938	7,501	6,481	6,036	6,425	6,575	6,636	7,049	6,585	7,274	7,661	7,032	81,193	67,847
Defense agencies	1,101	1,352	875	1,426	864	2,570	877	1,252	1,252	971	1,690	875	15,103	[2]28,041
Total Military[3]	18,707	20,249	19,519	18,912	19,216	21,039	19,597	21,491	20,247	21,478	22,580	21,018	244,054	220,838
Civil[3]	1,602	1,351	687	1,680	1,620	1,667	1,660	1,681	1,656	1,754	1,719	1,761	18,844	[2]19,544
Department of Education	1,390	1,733	1,203	1,572	1,772	1,316	1,478	1,393	1,033	1,114	1,433	1,244	16,682	15,511
Department of Energy	879	865	999	765	797	857	796	943	-552	841	1,226	1,769	10,186	8,289
Department of Health and Human Services:														
Human Development Services	390	559	497	577	472	484	528	596	435	465	562	490	6,056	5,896
Health Care Financing Administration:														
Grants to States for Medicaid	1,929	1,769	1,653	1,869	1,936	1,831	1,989	2,086	1,823	2,030	1,914	1,825	22,655	20,061
Federal hospital ins. trust fund	5,044	3,634	3,872	4,025	3,770	4,019	4,288	4,337	3,708	4,118	4,049	3,802	48,667	42,295
Federal supp. med. ins. trust fund	2,085	1,637	1,639	1,892	1,698	1,752	1,917	1,960	1,862	2,107	2,044	2,137	22,730	20,374
Other	1,434	1,539	1,561	1,503	1,626	2,272	1,734	1,531	1,512	1,614	1,572	1,409	19,306	18,044
Social Security Administration:														
Assistant Payments Program	713	812	587	840	721	565	870	696	582	855	748	636	8,625	8,346
Federal old-age and survivors ins. trust fund	13,401	13,273	14,626	14,045	14,107	14,202	14,105	14,061	16,810	14,595	14,183	14,204	171,614	162,406
Federal disability ins. trust fund	1,526	1,539	1,611	1,602	1,603	1,643	1,623	1,605	1,714	1,669	1,622	1,615	19,372	18,459
Other	1,394	2,254	1,744	990	1,411	1,290	2,198	2,053	401	1,424	1,791	698	17,647	19,568
Other	-1,574	-1,669	-1,947	-1,593	-1,684	-2,251	-2,588	-1,482	-1,460	-1,772	-1,372	-1,725	-21,119	-23,138

Table continued on next page.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1985 (in millions)—Continued

Classification	Oct.	Nov.	Dec	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Prior Fiscal Year To Date
Outlays														
Department of Housing and Urban Development	$4,733	$3,033	$3,117	$2,523	$1,061	$2,336	$4,049	$1,022	$2,153	$2,265	$1,296	$1,085	$28,671	$16,520
Department of the Interior	459	361	410	477	323	333	354	324	347	379	480	584	4,828	4,961
Department of Justice	145	450	239	394	234	254	311	277	256	399	291	269	3,518	3,165
Department of Labor:														
Unemployment trust fund	1,265	1,377	1,571	2,332	1,828	2,549	1,830	1,556	1,311	1,429	1,350	5,428	23,826	26,089
Other	14	323	449	91	433	−307	371	514	533	512	821	−3,687	67	−1,567
Department of State	489	212	93	230	155	235	206	192	170	245	259	159	2,645	2,403
Department of Transportation:														
Highway trust fund	1,402	1,021	1,049	794	600	567	936	938	1,097	1,198	1,595	1,403	12,601	10,240
Other	995	1,135	917	1,176	842	975	1,057	1,128	950	1,239	1,017	1,053	12,486	13,716
Department of the Treasury:														
Interest on the public debt	12,507	13,507	23,373	12,513	12,951	12,726	12,970	13,868	24,724	12,908	13,691	13,207	178,945	153,838
General revenue sharing	1,145	1	1	1,136	17	.....	1,149	1	(**)	1,132	(**)	1	4,584	4,567
Other	−1,797	−1,113	−2,174	−1,670	−468	−1,351	−1,147	−854	−2,406	−2,099	−694	−2,717	−18,486	−17,299
Environmental Protection Agency	407	392	491	254	339	354	367	351	397	404	433	322	4,511	4,057
General Services Administration	−302	113	128	−301	200	150	−361	232	101	−230	1	56	−214	192
National Aeronautics and Space Administration	802	631	613	548	617	643	608	606	537	571	553	593	7,318	7,048
Office of Personnel Management	1,964	1,722	1,980	2,038	2,059	1,870	2,050	1,862	2,113	2,029	1,949	2,090	23,727	22,590
Small Business Administration	215	−6	−34	−53	2	−24	4	1	10	9	−5	170	283	255
Veterans Administration:														
Compensation and pensions	1,162	2,261	1,205	53	1,188	1,205	1,204	2,324	53	1,184	2,333	45	14,217	13,918
National service life	37	38	39	50	46	60	50	48	45	47	47	28	535	481
Government service life	3	3	4	4	3	4	4	4	5	4	4	2	46	52
Other	904	1,044	1,135	819	976	1,023	1,036	826	801	1,085	1,023	863	11,535	11,142
Independent agencies:														
Postal Service	409	......	..	210	.. ..	1	211	.....	....	211	169	(**)	1,210	879
Tennessee Valley Authority	265	78	−84	103	−20	−31	151	114	240	80	(**)	18	914	351
Other independent agencies	1,798	819	1,880	−291	12	1,220	1,234	502	−1,034	−217	162	1,237	6,997	9,717
Undistributed offsetting receipts:														
Employer share, employee retirement[3]	−1,957	−2,121	−1,994	−2,300	−1,949	−2,140	−2,137	−2,161	−2,327	−2,279	−2,325	−3,670	−27,359	[2] −25,263
Interest received by trust funds	−356	−365	−11,192	−47	−275	−254	−137	−660	−12,185	−39	−254	−304	−26,070	−20,376
Rents and royalties on Outer Continental Shelf lands	−1,269	−281	−375	−213	−289	22	−617	−242	−83	−1,209	−159	−828	−5,544	−6,712
Totals this year:														
Budget outlays	**81,037**	**79,956**	**77,583**	**76,838**	**74,851**	**78,067**	**82,228**	**80,245**	**71,506**	**[1]78,012**	**83,621**	**73,191**	**936,809**	......
Budget surplus (+) or deficit (−)	**−28,787**	**−28,462**	**−15,179**	**−6,384**	**−20,830**	**−28,461**	**+12,365**	**−40,450**	**+645**	**−20,042**	**−27,845**	**+617**	**−202,813**	......
Off-budget surplus (+) or deficit (−)	**+768**	**−440**	**+616**	**−1,629**	**−225**	**−1,043**	**−980**	**−1,546**	**−2,014**	**−1,491**	**+247**	**−1,381**	**−9,118**	....
Total surplus (+) or deficit (−)	**−28,019**	**−28,902**	**−14,563**	**−8,013**	**−21,056**	**−29,504**	**+11,386**	**−41,997**	**−1,369**	**−21,532**	**−27,597**	**−764**	**−211,931**	....
Totals prior year:														
Budget outlays	*70,226*	*67,794*	*74,705*	*68,052*	*68,267*	*73,020*	*68,687*	*71,392*	*71,283*	*68,432*	*88,707*	*51,234*	....	*841,800*
Budget surplus (+) or deficit (−)	*−25,069*	*−21,592*	*−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*

[1] Does not include an adjustment to prior reporting of $326 million. However, the current fiscal year to date figure does include the adjustment.

[2] In order to make the 1984 data of the Military Retirement Fund as comparable as feasible to the 1985 data, the cash retirement benefits for 1984 are shown in Department of Defense—Civil (and the income security function) while imputed accruals are included in the Department of Defense—Military (and the national defense function) outlays and offset in undistributed offsetting receipts.

[3] Effective October 1, 1984, military retirement benefits are being paid from a new retirement trust fund in the Department of Defense, Civil (and in the income security function). The Department of Defense, Military (and national defense function) is being charged for the currently accruing benefits for future retirees. These intrabudgetary charges are paid into an offsetting receipt account that is included in undistributed offsetting receipts (employer share, employee retirement) in both the agency and function table.

....No transactions.

(**)Less than $500,000.

Note: Details may not add to totals because of rounding.

Source: Financial Management Service, Department of the Treasury.

Table 8. Effects of Federal Trust Fund Transactions on Budget Results, and Securities Held as Investments, September 1985 and Other Periods (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 investments held:									
Airport and airway	$263	$364	−$101	$2,851	$1,840	$1,012	$6,434	$7,534	$7,410
Black lung disability	57	52	5	581	562	19	....	....	
FDIC	.....	−48	48	.	−1,942	1,942	14,195	16,019	16,130
Federal disability insurance	1,401	1,520	−119	16,566	17,834	−1,267	4,656	6,023	5,704
Federal employees life and health	....	−6	6	......	−939	939	6,879	7,818	7,819
Federal employees retirement	379	−16,100	16,479	4,789	−12,847	17,636	114,073	126,998	130,017
Federal hospital insurance	3,863	3,525	338	44,871	42,610	2,261	16,982	20,830	21,176
Federal old-age and survivors insurance	15,738	13,485	2,254	172,973	159,989	12,983	27,224	31,434	30,968
Federal supplementary medical insurance	.....	306	−306	(**)	−1,846	1,846	9,117	10,991	10,736
Revenue sharing	......	1	−1	4,567	4,584	−17	....	....	....
Highways	1,253	1,382	−129	13,015	11,310	1,705	10,840	12,968	11,942
Military advances	......	13	−13	......	143	−143	......	....	....
Railroad retirement	323	466	−143	3,944	5,891	−1,947	3,097	4,226	4,232
Military retirement	......	−60	60	.....	−11,637	11,637	....	11,574	11,635
Unemployment	275	5,370	−5,095	25,758	20,881	4,877	12,397	18,375	17,009
Veterans life insurance	......	30	−30	.....	−392	392	10,265	10,684	10,642
All other trust	51	138	−87	592	926	−334	1,314	1,503	1,573
Trust fund receipts and outlays on the basis of Table 3 and investments held from Table 4-D	23,604	10,440	13,164	290,507	236,967	53,540	237,473	286,976	286,991
Interfund receipts offset against trust fund outlays	22,203	22,203	......	103,961	103,961	......			
Total trust fund receipts and outlays	**45.807**	**32,643**	**13,164**	**394,468**	**340,928**	**53,540**			
Federal fund receipts and outlays on the basis of Table 3	50,204	62,751	−12,547	448,055	704,408	−256,353			
Interfund receipts offset against Federal fund outlays	4,475	4,475	.....	5,639	5,639	.....			
Total Federal fund receipts and outlays	**54,679**	**67,226**	**−12,547**	**453,694**	**710,047**	**−256,353**			
Total interfund receipts and outlays	**−26,678**	**−26,678**	......	**−114,166**	**−114,166**	......			
Net budget receipts and outlays	**73,808**	**73,191**	**617**	**733,996**	**936,809**	**−202,813**			

....No transactions.
(**)Less than $500,000.
Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and 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 respectively. Included in total interfund receipts and outlays are $4,567 million in Federal funds transferred to trust funds for general revenue sharing.
Note: Details may not add to totals because of rounding.
Source: Financial Management Service, Department of the Treasury.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, September 1985 and Other Periods (in millions)

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	$34,643	$330,918	$295,955
Corporation income taxes	10,950	61,331	56,893
Social insurance taxes and contributions:			
Employment taxes and contributions	21,325	238,288	212,184
Unemployment insurance	275	25,758	25,138
Other retirement contributions	376	4,759	4,580
Excise taxes	3,331	35,865	37,361
Estate and gift taxes	497	6,422	6,010
Customs	936	12,079	11,370
Miscellaneous	1,473	18,576	16,965
Total	**73,808**	**733,996**	**666,457**
NET OUTLAYS			
National defense [1]	21,498	251,468	227,437
International affairs	1,995	15,426	13,231
General science, space, and technology	742	8,700	8,270
Energy	1,128	3,906	2,467
Natural resources and environment	1,083	13,298	12,683
Agriculture	978	22,780	12,146
Commerce and housing credit	401	1,817	5,204
Transportation	2,524	25,874	24,620
Community and regional development	521	7,748	7,803
Education, training, employment and social services	2,136	28,352	26,632
Health	2,672	33,560	30,433
Social security and medicare	21,170	254,446	235,764
Income security [1]	8,574	128,993	113,202
Veterans benefits and services	942	26,376	25,636
Administration of justice	469	6,188	5,619
General government	788	5,483	5,026
General purpose fiscal assistance	291	6,140	6,577
Net Interest	9,773	129,148	111,007
Undistributed offsetting receipts [1]	−4,495	−32,893	−31,957
Total	**73,191**	**936,809**	**841,800**

[1] Effective October 1, 1984, military retirement benefits are being paid from a new retirement trust fund in the Department of Defense, Civil (and in the income security function). The Department of Defense, Military (and national defense function) is being charged for the currently accruing benefits for future retirees. These intrabudgetary charges are paid into an offsetting receipt account that is included in undistributed offsetting receipts (employer share, employee retirement) in both the agency and function table.

Note: Details may not add to totals because of rounding.

Source: Financial Management Service, Department of the Treasury.

GPO 919-178

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, exluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or fund accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued by Government disbursing officers, and cash payments made. Certain intragovernmental outlays do not require issuance of checks. An example would be charges made against appropriations representing a part of employees' salaries which are withheld for individual income taxes, and for savings bond allotments. Outlays are stated net of offsetting collections and refunds representing reimbursements as authorized by law, refunds of money previously expended, and receipts of revolving and management funds. Interest on the public debt (public issues) is recognized on the accrual basis. Outlays of off-budget Federal entities are excluded from budget outlay totals.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *Guide to the Monthly Treasury Statement,* May 1983 (Available from the Financial Management Service, U.S. Department of Treasury, Washington, D.C. 20226). This publication describes and explains each element within the *MTS,* including how data are prepared, a brief history of the publication, and other information.

- *Federal Financial Transactions* (Available from GPO, Washington, D.C. 20402). This publication provides a detailed description of the Department of the the Treasury's financial operations.

- *A Glossary of Terms Used in the Federal Budget Process, March 1981* (Available from the U.S. General Accounting Office, Gaithersburg, Md. 20760). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402). This quarterly publication provides a summary of statistics concerning the Federal Government's financial operations, international statistics, cash management/debt collection, and special reports.

- *Annual Budget Publications* (Available from GPO, Washington, D.C. 20402). There are five annual publications which provide information concerning the budget:

  -The Budget of the United States Government, FY 19__
  -Appendix, The Budget of the United States Government, FY 19__
  -The United States Budget in Brief, FY 19__
  -Special Analyses
  -Historical Tables

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20226). This annual report presents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

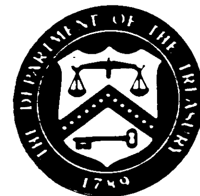
SPECIAL NOTICE

Beginning with the October 1985 Monthly Treasury Statement, the release date of the Statement will be changed from the 17th workday of the month to the 15th workday. The release date is being changed to make the data that the Statement contains more timely for its users.

The scheduled release date for the October 1985 Statement will be November 22, 1985.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, (202)783-3238. The subscription price: $27 per year (domestic), $33.75 per year (foreign).
No single copies are sold.

TREASURY NEWS



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

FOR IMMEDIATE RELEASE October 28, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 7,130 million of 13-week bills and for $ 7,106 million of 26-week bills, both to be issued on October 31, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 30, 1986			:	26-week bills maturing May 1, 1986		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.20%	7.44%	98.180	:	7.35%	7.74%	96.284
High	7.24%	7.48%	98.170	:	7.38%	7.77%	96.269
Average	7.24%	7.48%	98.170	:	7.37%	7.76%	96.274

Tenders at the high discount rate for the 13-week bills were allotted 82%.
Tenders at the high discount rate for the 26-week bills were allotted 52%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 44,615	$ 44,615	:	$ 37,565	$ 37,565
New York	17,363,115	6,125,835	:	17,374,185	6,085,985
Philadelphia	24,175	24,175	:	22,110	22,110
Cleveland	49,155	49,155	:	33,510	33,510
Richmond	47,240	47,240	:	66,095	53,215
Atlanta	67,270	56,270	:	84,835	47,235
Chicago	1,508,985	153,905	:	1,601,890	193,770
St. Louis	91,335	51,220	:	84,635	44,635
Minneapolis	39,400	34,900	:	43,815	31,815
Kansas City	85,365	85,365	:	56,140	51,615
Dallas	39,110	33,210	:	32,105	22,105
San Francisco	1,097,340	98,545	:	1,213,020	125,540
Treasury	326,060	326,060	:	356,820	356,820
TOTALS	$20,783,165	$7,130,495	:	$21,006,725	$7,105,920
Type					
Competitive	$17,488,315	$3,835,645	:	$17,382,860	$3,482,055
Noncompetitive	1,198,590	1,198,590	:	1,017,865	1,017,865
Subtotal, Public	$18,686,905	$5,034,235	:	$18,400,725	$4,499,920
Federal Reserve	1,562,760	1,562,760	:	1,350,000	1,350,000
Foreign Official Institutions	533,500	533,500	:	1,256,000	1,256,000
TOTALS	$20,783,165	$7,130,495	:	$21,006,725	$7,105,920

1/ Equivalent coupon-issue yield.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 28, 1985

TREASURY ANNOUNCES NOTE AND BOND OFFERINGS TOTALING $17,750 MILLION

The Treasury will raise about $17,750 million of new cash by issuing $6,750 million of 3-year 11-month notes, $6,250 million of 6-year 11-month notes, and $4,750 million of 10-3/4% 19-year 9-month bonds.

If Congress delays action on the debt limit beyond the issue dates of the securities announced today, the Treasury will assure the issuance of the securities by disinvesting Federal trust funds as necessary to permit payments of benefits. This would, of course, mean that the issuance of the securities would not exceed the debt limit.

The $17,750 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders. Additional amounts of the 3-year 11-month notes may be issued to Federal Reserve Banks at the average price of accepted competitive tenders in exchange for the $350 million of Treasury bills issued for their own account on September 30, 1985, for securities maturing on that date that were not refunded in the 2-year note auction of September 18, 1985.

The 10-3/4% 19-year 9-month bond will become eligible for STRIPS (Separate Trading of Registered Interest and Principal of Securities) on February 18, 1986.

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

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Attachment

B-332

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 3-YEAR 11-MONTH NOTES, 6-YEAR 11-MONTH NOTES, AND 19-YEAR 9-MONTH BONDS

October 28, 1985

Amount Offered to the Public	$6,750 million	$6,250 million	$4,750 million
Description of Security:			
Term and type of security	3-year 11-month notes	6-year 11-month notes	19-year 9-month bonds (reopening)
Series and CUSIP designation	Series N-1989 (CUSIP No. 912827 SU 7)	Series G-1992 (CUSIP No. 912827 SV 5)	10-3/4% Bonds of 2005 (CUSIP No. 912810 DR 6)
Issue date	November 1, 1985	November 1, 1985	November 4, 1985
Maturity date	September 30, 1989	October 15, 1992	August 15, 2005
Call date	No provision	No provision	No provision
Interest Rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	10-3/4%
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	March 31 and September 30 (first payment on March 31, 1986)	April 15 and October 15 (first payment on April 15, 1986)	February 15 and August 15 (first payment on February 15, 1986)
Minimum denomination available	$1,000	$1,000	$1,000
Amount required for STRIPS	Not applicable	Not applicable	$800,000
Terms of Sale:			
Method of sale	Yield auction	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $1,000,000	Accepted in full at the average price up to $1,000,000	Accepted in full at the average price up to $1,000,000
Accrued interest payable by investor	None	None	$36.72798 per $1,000 (from July 2, 1985, to November 4, 1985)
Payment through Treasury Tax and 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
Payment by non-institutional investors	Full payment to be submitted with tender	Full payment to be submitted with tender	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable	Acceptable	Acceptable
Key Dates:			
Receipt of tenders	Tuesday, October 29, 1985, prior to 1:00 p.m., EST	Wednesday, October 30, 1985, prior to 1:00 p.m., EST	Thursday, October 31, 1985, prior to 1:00 p.m., EST
Settlement (final payment due from institutions):			
a) cash or Federal funds	Friday, November 1, 1985	Friday, November 1, 1985	Monday, November 4, 1985
b) readily-collectible check	Wednesday, October 30, 1985	Wednesday, October 30, 1985	Thursday, October 31, 1985

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
EXPECTED AT 9:30 A.M.
OCTOBER 30, 1985

STATEMENT OF THE HONORABLE DAVID C. MULFORD
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL FINANCE AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

We are grateful to the subcommittee and to you, Mr. Chairman, for permitting us to present the Administration's initiative for a so-called War Chest to combat tied aid credits. It is a major offensive in the President's campaign against foreign unfair trade practices. The legislation is designed to foster free and fair trade -- to establish a balanced competitive environment where U.S. businesses can compete fairly.

Our initiative is not designed to create a new subsidy program to promote exports. This legislation purposely avoids setting up an unfair trade practice of our own to mimic the unfair trade practices of other countries. On the contrary, the War Chest will provide the necessary leverage on governments to join the great majority of our industrial nation trading partners and negotiate an end to the misuse of tied or partially untied aid credits for predatory commercial purposes.

The Tied Aid Credit Problem

We should recognize at the outset that most of our negotiating objectives have been achieved in the field of export credits. After several years of negotiations, the 22 OECD nations revised the Arrangement on Export Credits in November 1983 to reduce greatly and in many instances eliminate export credit subsidies.

In the last year, we further agreed to essentially eliminate financial subsidies for nuclear power projects and large commercial aircraft. Moreover, participating countries, including France, agreed to prohibit the use of any tied aid credits whatsoever in these two important sectors. These agreements by OECD member governments are among the most significant recent advances in free trade.

With the reduction of export credit subsidies, however, tied aid credits, which use aid alone or in combination with normal export credit financing, have become a more important problem for U.S. exporters. The scope of the problem is revealed by the following:

-- A recent OECD study, prepared at the behest of OECD Ministers, concluded that tied aid credits with low levels of concessionality distort aid and trade more than credits with high grant elements.

-- The number of notified tied aid credits with low grant elements has doubled since 1982.

-- The OECD predicts that the amount of such offers will increase to over $6.0 billion in 1985.

-- Although many other countries have adopted programs to match France, French tied aid credits still account for one-third of all tied aid credits with grant elements below 50 percent and more than one-half of all tied aid credits with grant elements below 35 percent.

These credits, when used for commercial purposes in the guise of foreign aid, represent an unfair trade practice, have caused the United States to lose key export sales, and have diverted funds away from development assistance. Thus, the continued use of commercially motivated tied aid credits threatens to undermine the Arrangement and increase international trade tensions.

The Negotiating Impasse

The clearest, simplest, and most direct solution to the problem of commercially motivated tied aid credits is to raise the minimum permissible grant element from the current 25 percent to 50 percent, a proposal presented by the United States to the OECD Export Credits Group in December 1983. While it would not completely eliminate the problem, it would make the cost of such credits so high that no country's aid budget could sustain such a diversion from real economic development assistance.

Increasing the minimum permissible grant element to 50 percent is not so shocking as it may appear. The most recent OECD Development Assistance Committee statistics show that the average grant element of all aid provided by these countries was almost 90 percent in recent years. If one excludes grants, the average grant element of loans ranged between 56 and 59 percent.

To date, negotiations on tied aid credits have recorded modest successes. In 1982, OECD governments agreed to ban tied aid credits with a grant element below 20 percent. In April 1985, OECD Ministers improved discipline by raising the minimum permissible grant element from 20 to 25 percent and improved transparency through new prior notification and consultation procedures. The Ministers also directed OECD committees to develop new measures to further improve discipline and transparency. In July the Export Credits Group reached agreement on defining the tied aid credits which are causing the problem.

The U.S. Government welcomes these interim steps but, unfortunately, we have now reached an impasse. While most industrialized countries are prepared to accept greater discipline over tied aid credits, a few countries, notably France, supported by Italy, are now blocking negotiating progress. At the September 16-20 meeting of the OECD we were unable to make progress primarily because the European Community -- even with the Ministerial mandate -- had no flexibility to increase the minimum grant element or to explore alternative solutions.

We need a new initiative to break this logjam. The Trade and Development Enhancement Act of 1983, which created a tied aid credit matching program, has not given us sufficient leverage. Eximbank's ability to match has been limited since it must draw down its dwindling capital and reserves for this purpose. USAID action has been limited by the country allocation process and the requirement that its activities be for legitimate development purposes. The U.S. Government has thus offered only 12 tied aid credits since the bill was enacted. As a result, selective matching by the United States and more aggressive matching by other countries has not deterred France from continuing to offer predatory tied aid credits, nor has it encouraged France to negotiate.

The War Chest Initiative

To combat these unfair trade practices, the President has announced the following new initiative:

-- The Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for grants to mix with Eximbank credits or private sector loans. The purpose of this program of tied aid grants is to buttress the Administration's negotiating efforts to eliminate predatory tied aid credits by other countries.

-- The Export-Import Bank will begin immediately to draw on its capital and reserves to offer tied aid credits as a temporary step until the proposed legislation is enacted.

-- The Secretary of the Treasury, who has the lead in the negotiations, has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy, on which both the Export-Import Bank and AID are represented. Since the initiative is neither for export promotion nor economic development assistance, the Export-Import Bank and the Agency for International Development should not be asked to administer it.

-- The War Chest should be dismantled when sufficient negotiating progress has been achieved to restrict commercial use of tied aid credits with low grant elements.

The Administration's proposal is designed (1) to maximize negotiating leverage; (2) to avoid an open-ended entitlement program; and (3) to minimize the budgetary impact.

Leverage: To maximize negotiating leverage, we seek a War Chest of $300 million which would support up to $1 billion of exports. The War Chest would be targeted at those sectors and markets of particular importance to countries impeding negotiations.

The program should be aggressive and preemptive, not a program of merely matching tied aid credits. Other countries have matching programs which have not caused the initiators to agree to further discipline. Initiators retain the commercial advantage of being sought out first by the customer. If we only matched foreign offers, we would perpetuate rather than eliminate the practice, throwing good money after bad.

Consequently, we are proposing an offensive tied aid credit program. In particular, we seek the authority to initiate tied aid credits and if necessary to outbid selected foreign tied aid credit offers in deals which are of particular importance to countries blocking negotiations.

Cautionary Provisions: The proposed bill contains a clearly defined purpose which ties the War Chest to U.S. negotiating objectives rather than establishing a permanent subsidy and entitlement program. Treasury would control the fund. In operating the fund and selecting transactions to be targeted, however, we would rely heavily on the advice of the agencies in the National Advisory Council. In addition to a sunset provision of September 30, 1987, the President would have the discretion to end the fund earlier if sufficient negotiating progress has been achieved.

Budgetary Impact: The budgetary impact would be limited by authorizing the use of grants rather than low interest loans (which would require higher appropriations). By appropriating the fund directly to the Department of the Treasury, we have tried to ensure that the fund does not taint the objectives of Eximbank and USAID nor divert funds from other important bilateral and multilateral assistance programs.

Since the President's initiative was announced, Eximbank is in the process of notifying OECD countries of new offers totaling more than a quarter of a billion dollars in tied aid credits. These proposed offers are aggressively targeted against countries impeding negotiations. Since these cases involve either initiation or overmatching, however, they could not be authorized under the Trade and Development Enhancement Act of 1983, but instead, under the Bank's residual Charter authority. Although Eximbank will issue preliminary commitments for these transactions under its own authority, it anticipates that the actual funding would combine regular Eximbank credits and grant funds from the War Chest, if enacted and funded. Otherwise, the concessionary portion would come from a low-interest-rate loan, which would be costly to Eximbank's capital and reserves.

Conclusion

Tied aid credits and partially untied aid credits with low levels of concessionality are increasingly undermining the international system of trade and finance. Our War Chest initiative will greatly enhance our leverage to negotiate restrictions on the commercial uses of tied aid or partially untied aid credits. In order to implement the President's attack on unfair trade practices, we seek speedy enactment of our War Chest initiative.

This legislation purposely avoids setting up an unfair trade practice to match unfair trade practices of other countries. Such a course would ultimately injure all parties. Our effort is to decrease, not increase, international tensions in the field of trade finance. Our responsibilities lie in leveling the playing field for free and fair trade.

TREASURY NEWS

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

STATEMENT OF THE HONORABLE DAVID D. QUEEN
ACTING ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

October 29, 1985

The Treasury View on Legislation to Combat Money Laundering

Mr. Chairman and members of the Committee:

I appreciate the opportunity to appear before you today to discuss the views of the Treasury Department on the problem of money laundering and possible legislative responses to it. In my testimony today, I will present the Treasury Department's views on the various bills before the Committee. First, however, I believe that it would be useful to discuss briefly the problem of money laundering itself and the history of Treasury's efforts to suppress it.

Money laundering, as this Committee is fully aware, is an indispensable element in every criminal organization. Without a means to convert its illicit cash earnings into other forms of wealth, organized crime could not maintain the veil of secrecy that allows it to flourish in our society. It could not reinvest its illegal proceeds in ways that allow it to continue and expand its operations. And it could not so readily spread its corrupting influence.

Because of its unique combination of expertise in financial matters and law enforcement responsibilities, the Department of the Treasury has long been engaged in efforts to attack the financial underpinnings of organized crime, particularly the drug trade. The passage of the Bank Secrecy Act in 1970 gave new impetus to this cause and authorized Treasury to obtain the type of financial reporting that can be useful for law enforcement in ferreting out organized crime and prosecuting its criminal operatives. Another example of Treasury's efforts against the financial base of the criminal underworld is the Narcotics Trafficker's Tax Project, a program that the Treasury

Department initiated in 1971 to use Title 26 sanctions against major drug traffickers, many of whom were identified by DEA as well as by IRS special agents and revenue agents. This program resulted in more than 500 recommendations for prosecution and over $200 million in additional tax liability. IRS conducts a similar program today known as the High Level Drug Leaders project, which also has had considerable success.

Between 1980 and 1983, the High Level Drug Leaders Project opened 2700 cases and produced 594 indictments and 380 convictions. In 1984 Fiscal Year alone, the project opened 1085 cases, produced 516 indictments, and resulted in 353 convictions. The project has expanded since then and has produced 1188 cases, 673 indictments and 515 convictions in Fiscal Year 1985.

Among Federal agencies, Treasury stood virtually alone in the investigation of money laundering throughout the 1960's and 1970's. In the 1980's, heightened concern over the problem of drug trafficking, as well as growing recognition that an attack on money laundering is essential to this struggle, has lead to a multi-agency attack on money laundering. Today, task forces composed of agents from bureaus under the Departments of Justice and Treasury investigate narcotics and other organized crime offenses, with the benefit of the financial investigative techniques that Treasury has developed. These techniques were first used on a large scale in Miami through a Treasury initiative that became successful as a joint venture with the Justice Department known as Operation Greenback.

Greenback sought to investigate the reasons for the $5.8 billion currency surplus reported by the Federal Reserve Bank offices in Florida. Because normal growth in an economic region ordinarily produces a net currency deficit, the surplus in Florida suggested the presence of large amounts of drug proceeds in the local economy.

Encouraged by the success of Greenback, Treasury has since established approximately 40 task forces in cities across the nation, which together with Greenback have produced more than 1300 indictments since 1980, as well as $81.8 million in currency seizures and $34.4 million in properly seizures. Greenback itself is now part of the Organized Crime Drug Enforcement Task Force for the Southeast region. As this Committee is aware, thirteen OCDE Task Forces are now in operation.

The OCDE Task Forces have been an unprecedented success, and Treasury is proud of the role played by its participating bureaus--IRS, U.S. Customs, and the Bureau of Alcohol, Tobacco

and Firearms. Although these Task Forces have been fully operational only since July of 1983, they have initiated 1054 cases. They have produced indictments of 6454 individuals, 2695 of which have already been convicted. More than two-thirds of the OCDE Task Force cases have a financial component and many more were dependent on financial investigations for important evidence.

Treasury's investigations have had a significant impact on criminal organizations that launder drug proceeds. Since 1980, we have destroyed eighteen such organizations, which have laundered a total of approximately $2.8 billion. The cases involved are listed below:

Case that have already resulted in convictions	Dollars Laundered	Time Frame
Isaac Kattan	$500,000,000	3 Years
Beno Ghitis	268,000,000	5 Years
Orozco	145,000,000	13 Months
Armenteros, et al.	130,000,000	8 Years
Great American Bank	95,000,000	13 Months
Zapata, et al.	17,000,000	8 Months
Pinto	12,000,000	13 Months
Subtotal:	$1,167,000,000	
Pending Cases		
A	$300,000,000	3 Years
B	300,000,000	8 Years
C	250,000,000	20 Months
D	230,000,000	3 Years
E	180,000,000	2 Years
F	140,000,000	8 Months
G	70,000,000	8 Months
H	65,000,000	1 Year
I	60,000,000	1 Year
J	20,000,000	18 Months
K	9,000,000	3 Months
Subtotal:	$1,624,000,000	
Total:	$2,791,000,000	

In addition to our investigative work, Treasury has directed substantial attention to the regulatory enforcement of the Bank Secrecy Act, particularly the reporting requirements that are in place under the Act. The information collected under these reporting requirements is essential for our financial investigations.

Treasury analyzes this information at the Financial Analysis Division, which is located at U.S. Customs headquarters. By combining these data with other sources of intelligence, this Division is able to generate financial intelligence reports, currency flow charts, and link analyses that probe the financial connections inside and among illicit enterprises. The analyses produced there support ongoing financial investigations and can generate leads for new ones. All of the task forces I have mentioned benefit from this Customs analytical capability, as do Federal, State and local law enforcement agencies.

We have taken steps over the past several years to improve the level of compliance of financial institutions with the reporting requirements, particularly with respect to the regulatory changes made in 1980 that increased the effectiveness of the Act as a tool to identify and combat money laundering. Earlier this year, the media coverage of Bank of Boston case brought heightened public attention to the matter of compliance by financial institutions. However, we have been bringing cases against financial institutions and their employees for noncompliance since the late 1970's. To date, we have identified approximately 40 cases that have resulted in criminal convictions of banks or bank employees. At present, we have approximately 100 active referrals of financial institutions to IRS for investigation of apparent criminal violations.

As a result of the publicity following the Bank of Boston case, over sixty banks have disclosed Bank Secrecy Act violations, many on a voluntary basis. On June 18, 1985, Treasury announced that civil penalties ranging from $210,000 to $360,000 had been imposed on four of these banks -- Chase Manhattan Bank, Manufacturers Hanover Trust, Irving Trust and Chemical Bank. On August 27, Treasury imposed a civil penalty of $2.25 million against Crocker National Bank based on over 7800 reporting violations. This is the largest Bank Secrecy Act civil penalty imposed by Treasury to date. On October 11, Treasury assessed a civil penalty of $229,750 against the Riggs National Bank. The cases of the other banks that have come forward are currently under review.

Additionally, we have been working with the financial institution regulatory agencies to strengthen their Bank Secrecy Act examination procedures. More rigorous examinations should lead to improved compliance.

We have strengthened the Treasury Bank Secrecy Act regulations in several respects: On May 7 of this year, regulations became effective that designated casinos as financial institutions subject to certain Bank Secrecy Act reporting and recordkeeping requirements. As evidenced in hearings by the President's Commission on Organized Crime this summer, money laundering through casinos may be even more widespread than once thought. The Treasury regulations will reduce the attractiveness of the use of casinos for money laundering.

Finally, a regulatory amendment pertaining to international transactions was published as a final rule in the Federal Register on July 8 of this year. These regulations do not themselves impose any reporting requirements. Under the regulations, however, Treasury will be able in the future to select a financial institution or a group of financial institutions for reporting of specified international transactions, including wire transfers, for defined periods of time. We envision that this will require reporting of transactions with financial institutions in designated foreign locations that would produce information especially useful in identifying individuals and companies involved in money laundering or tax evasion.

This effort reflects Treasury's intention to make further progress against the problem of international money laundering. Another aspect of our attack on money laundering offshore is our negotiation with foreign governments that have stringent bank secrecy laws. Treasury has worked closely with the Departments of Justice and State to obtain the cooperation of these governments for the release of financial information relevant to possible violations of law. The agreement our government has reached with Great Britain that provides for access by U.S. prosecutors to information located in the Cayman Islands that is relevant to narcotics violations is a direct result of this endeavor.

Now, I would like to turn to the bills before the Committee, Senate bills 571, 572, 1385 and 1335. Senate 1335, the "Money Laundering and Related Crimes Act of 1985," was developed jointly by the Departments of Justice and Treasury.

In my remarks today, I will concentrate on the amendments in these bills that would enhance Treasury's enforcement authority of the Bank Secrecy Act and on the amendments in S. 1335 to the Right to Financial Privacy Act. Mr. Trott will address the provisions in the bills establishing a criminal offense

for money laundering. Let me just note that Treasury believes that the need for a money laundering offense is beyond debate. As I have discussed, the Bank Secrecy Act is an effective law enforcement tool, but in and of itself, it is not enough to stop money laundering. As long as the requisite reports of currency transactions are filed under the Bank Secrecy Act, money laundering transactions may now take place without risk of sanction under the Bank Secrecy Act.

Both of Senator D'Amato's bills (S. 571 and S. 572) and Senator DeConcini's bill (S. 1385) have much to commend them and contain valuable amendments to Treasury's Bank Secrecy Act enforcement authority. Nevertheless, Treasury believes that the more comprehensive amendments to Title 31 in S. 1335 are needed at this time.

Also, only S. 1335 among the bills under consideration includes essential amendments to the Right to Financial Privacy Act. These amendments would greatly facilitate efforts to curb money laundering and related criminal activity by allowing financial institutions to fulfill their civil duty to cooperate with federal law enforcement authorities without fear of civil liability to those whom they suspect of criminal activity.

With respect to Treasury's enforcement of the Bank Secrecy Act, the most important provision in all three of the bills before the Committee is the provision that would give the Secretary for the first time summons authority both for financial institution witnesses and documents in connection with Bank Secrecy Act violations. This authority was among the legislative recommendations in the October 1984 report of the President's Commission on Organized Crime. I would add that long before the PCOC report, Senator D'Amato advanced the idea of this summons authority and introduced legislation to accomplish it in the last Congress.

Under the summons authority in S. 1335, the Secretary would be able to summon a financial institution officer, employee, former officer, former employee, or custodian of records who may have knowledge of a violation of the Act and require production of relevant documents. This authority is essential both to investigate violations and to assess the appropriate level of civil penalties once a violation is discovered.

Section 5(c) of S. 1335 contains amendments to 31 U.S.C. § 5321, to strengthen the civil penalty provisions of the Bank Secrecy Act. Under current law, the civil penalty for willful violations of reporting requirements under the Act is $10,000 per violation, with an additional penalty for the failure to

report the international transportation of monetary instruments. S. 1335 provides for a new penalty of not more than the amount of the transaction up to $1,000,000, or $25,000, whichever is greater, for all reporting violations.

For instance, if a financial institution failed to report a transaction of $12,000, the maximum civil penalty that could be imposed would be $25,000. If a financial institution failed to report a transaction of $2 million, the maximum civil penalty that could be imposed would be $1 million. For violations that do not involve the reporting requirements, the maximum penalty would continue to be $10,000. These increased penalties will make clear to financial institutions that proper reporting is extremely important to law enforcement and that the financial consequences of non-compliance could be severe. S. 571 and S. 1385 also would increase the amount of civil penalties for reporting violations; they would do so by establishing a maximum penalty of the amount of the transaction in all cases.

The Administration's bill provides a new penalty for negligent violations of the recordkeeping and reporting requirements. Under current law, civil penalties may be imposed only for willful violations, which encompass violations done with reckless disregard of the law or with specific intent to violate the law. Mere negligent non-filing by banks deprives the Government of important law enforcement information to the same extent as do willful violations. This provision would subject violators to a $10,000 civil penalty in cases where the facts do not support a finding of willfulness.

All three bills would impose a new civil penalty on individuals who fail to report information about foreign bank accounts and foreign bank account transactions under 31 U.S.C. § 5314 and the regulations thereunder.

S. 1335 also amends the civil penalty provision, 31 U.S.C. § 5321, to clarify that criminal penalties under § 5322 and civil penalties under § 5321 are cumulative. This provision makes explicit that if the Secretary of the Treasury assesses a civil penalty in a case and then refers the case to the Department of Justice for criminal prosecution, a court should impose criminal penalties without reference to whether a civil penalty has been imposed (except to the extent that the prior penalty affects the defendant's ability to pay). Similarly, if a criminal conviction occurs before assessment of a civil penalty, the Secretary of the Treasury is free to impose the full measure of civil penalties available.

Subsection 5(d) of S. 1335 establishes a six-year statute of limitations for actions to enforce civil penalties under the Bank Secrecy Act. Bank Secrecy Act civil penalty enforcement actions are now governed by the general five-year statute of limitations for all civil fines and penalties, 28 U.S.C. § 2462. This change is needed because civil penalty cases are frequently subject to related criminal actions which may take many months to conclude. There may be a stay of civil proceedings pending the criminal proceedings, or a decision to await assessment of a civil penalty until the conclusion of the criminal proceedings. The six-year statute of limitations ordinarily would allow Treasury to retain the right to impose a civil penalty on all the transactions that were within the statute of limitations when the matter was referred for criminal action.

Section 5(b) of S. 1335 revises 31 U.S.C. § 5319 relating to disclosure by the Secretary of the Treasury of information reported under the Bank Secrecy Act. Currently, the Secretary is required to make such information available to a federal agency upon request. The amendment clarifies that the Secretary may also make this information available to a state or local agency and may make disclosure to any federal agency if he has "reason to believe" the information would be useful to a matter within the receiving agency's jurisdiction, with or without a request. Disclosure may also be made to the intelligence community for national security purposes.

Section 5(f) amends the Bank Secrecy Act definition of "monetary instrument" to eliminate any possibility that the current definition could be viewed as a bar to the defining of the term "monetary instrument" by regulation to include, for example, cashier's checks and checks drawn to fictitious payees.

Section 3 of S. 1335 sets forth several amendments to the Right to Financial Privacy Act of 1976 (Title XI of Public Law 95-630) ("RFPA"). Many of these amendments are intended to define the extent to which financial institutions may cooperate in Federal law enforcement efforts without risking civil liability under the RFPA. These amendments would not compromise any legitimate privacy interests. Several of the amendments are variations of recommendations made by the President's Commission on Organized Crime which appear in H.R. 1367.

In viewing these amendments, it is important to bear in mind that the Right to Financial Privacy Act does not confer any rights on the part of an aggrieved customer to recover damages from a bank for that bank's release of information to state law enforcement authorities, to private parties, or even to foreign governments. The Act provides for penalties only in the case of disclosure to the federal government, and the prospect of

liability under the Act has had an overly inhibiting effect on the disclosure of information related to criminal activity. Treasury urges that the Congress not continue to allow the Act to be used as a shield to prevent banks from voluntarily making timely disclosure of ongoing criminal activity to federal law enforcement authorities.

Treasury's experience with numerous banks of every size, across the country, shows that banks want to assist federal law enforcement authorities. Bankers often have expressed regret that they must make a business decision to restrict their disclosure of suspicious activity to federal authorities given the risk of civil action under the RFPA by those whom they suspect of criminal activity.

In my view, the most important change the bill would make to the Right to Financial Privacy Act is the amendment to subsection 1103(c), 12 U.S.C. § 3403(c). Currently, § 3403(c) provides that nothing in the Act shall preclude a financial institution form notifying a Government authority that the institution has information which may be relevant to a possible violation of any statute or regulation. The provision has created much confusion among financial institutions regarding how much information relating to the possible violations of law can be given to a Government authority without the risk of civil liability.

For effective enforcement against money laundering, it is critical that financial institutions be free to divulge enough information about the nature of the possible violation and parties involved so that the Government authority may proceed with a summons, subpoena or search warrant for additional information. Therefore, in order to define the extent of permissible disclosure, subsection 3(c) makes explicit that the information a financial institution may provide to law enforcement, without customer notification, includes the name or names and other identifying information concerning the individuals or account involved, as well as the nature of the suspected illegal activity. This provision would not authorize full disclosure of all information and records in the financial institution's possession.

Another proposed amendment would allow a financial institution to make full disclosure in certain narrowly defined situations. Subsection 1113 of the Right to Financial Privacy Act, 12 U.S.C. § 3413, would be amended to allow a financial institution to provide the Government, without customer notice or fear of civil liability, all information and records which it has reason to believe may be relevant to certain possible crimes -- crimes by or against a financial institution or financial institution supervisory agency, Bank Secrecy Act violations, violations of the proposed money laundering offense, or enumerated drug-related crimes.

The bill provides two additional protections to financial institutions that cooperate in disclosing suspected criminal activity. First, the "good faith" defense that financial institutions may raise in civil actions by customers whose records have been disclosed (12 U.S.C. § 3417(c)) is expanded. Also, the bill adds a new provision that makes it explicit that the Right to Financial Privacy Act preempts any state financial privacy law or court decision that is more restrictive of disclosure to the government of a possible violation of law without customer notice.

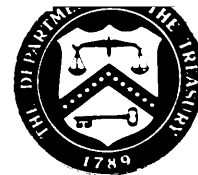
The bill also amends 12 U.S.C. § 3412 to eliminate the requirement of certification and notice to the customer when an agency that has received financial records in accordance with the provisions of the RFPA transfers the records to another agency, as long as the transferring agency believes the records may be relevant to a matter within the jurisdiction of the receiving agency. The eliminated notice of further transfer provides little if any further privacy protection to the affected bank customers.

Treasury opposes a provision in S. 1385 that would provide that every Bank Secrecy Act reporting exemption be approved by the Secretary on a quarterly basis. Currently under the regulations, a bank may exempt from reporting certain cash deposits and withdrawals of accounts of retail businesses in amounts consistent with the lawful, customary conduct of such a business. The bank has a continuing duty to monitor the qualifications for such exemptions. It would be unwise, in our view, to shift away from the bank the burden of monitoring the eligibility of bank customers for exemptions. The bank is in the best position to know its customers and changes in their status. Accordingly, the provision is unnecessary and overly burdensome to the Government and to the financial community.

Other measures can more effectively ensure against inappropriate exemptions. For instance, we are considering instead a regulation that would provide IRS with copies of all exempt list applications, the truthfulness of which would be compelled under the sanction of 18 U.S.C. § 1001. Also, in our work with the financial institution regulatory agencies, we are addressing the matter of review of exemption procedures.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions from the Committee.

TREASURY NEWS



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

FOR RELEASE AT 4:00 P.M. October 29, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $14,400 million, to be issued November 7, 1985. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 14,318 million. 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 4, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 7,200 million, representing an additional amount of bills dated August 8, 1985, and to mature February 6, 1986 (CUSIP No. 912794 JR 6), currently outstanding in the amount of $ 7,277 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 7,200 million, to be dated November 7, 1985, and to mature May 8, 1986 (CUSIP No. 912794 KE 3).

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.

The bills will be issued for cash and in exchange for Treasury bills maturing November 7, 1985. Tenders from Federal Reserve Banks for their own account 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. Federal Reserve Banks currently hold $ 1,192 million as agents for foreign and international monetary authorities, and $ 2,868 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

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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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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 29, 1985

RESULTS OF AUCTION OF 3-YEAR 11-MONTH NOTES

The Department of the Treasury has accepted $6,782 million of $34,352 million of tenders received from the public for the 3-year 11-month notes, Series N-1989, auctioned today. The notes will be issued November 1, 1985, and mature September 30, 1989.

The interest rate on the notes will be 9-3/8%. The range of accepted competitive bids, and the corresponding prices at the 9-3/8% interest rate are as follows:

	Yield	Price
Low	9.47%	99.695
High	9.47%	99.695
Average	9.47%	99.695

Tenders at the high yield were allotted 67%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 58,730	$ 22,730
New York	30,870,012	6,177,138
Philadelphia	13,000	13,000
Cleveland	145,007	41,007
Richmond	42,927	39,927
Atlanta	49,618	24,618
Chicago	1,229,614	158,614
St. Louis	184,716	162,716
Minneapolis	62,909	23,909
Kansas City	96,525	93,025
Dallas	9,988	5,988
San Francisco	1,587,412	18,412
Treasury	1,083	1,083
Totals	$34,351,541	$6,782,167

The $6,782 million of accepted tenders includes $792 million of noncompetitive tenders and $5,990 million of competitive tenders from the public.

In addition to the $6,782 million of tenders accepted in the auction process, $140 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $350 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 September 30, 1985, for securities that matured on that date.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 30, 1985

RESULTS OF AUCTION OF 6-YEAR 11-MONTH NOTES

The Department of the Treasury has accepted $ 6,274 million of $ 19,972 million of tenders received from the public for the 6-year 11-month notes, Series G-1992, auctioned today. The notes will be issued November 1, 1985, and mature October 15, 1992.

The interest rate on the notes will be 9-3/4%. The range of accepted competitive bids, and the corresponding prices at the 9-3/4% interest rate are as follows:

	Yield	Price
Low	9.75%	100.000
High	9.75%	100.000
Average	9.75%	100.000

Tenders at the high yield were allotted 76%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 19,606	$ 17,606
New York	17,862,443	5,805,827
Philadelphia	11,100	11,100
Cleveland	73,143	23,143
Richmond	20,661	15,661
Atlanta	40,180	32,180
Chicago	919,581	146,581
St. Louis	141,928	139,928
Minneapolis	16,033	14,033
Kansas City	53,943	51,293
Dallas	9,929	3,929
San Francisco	802,797	11,792
Treasury	957	957
Totals	$19,972,301	$6,274,030

The $ 6,274 million of accepted tenders includes $ 651 million of noncompetitive tenders and $ 5,623 million of competitive tenders from the public.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE October 31, 1985

RESULTS OF AUCTION OF 19-3/4-YEAR BONDS

The Department of the Treasury has accepted $4,755 million of $12,386 million of tenders received from the public for the 10-3/4% 19-3/4-year Bonds of 2005 1/ auctioned today. The bonds will be issued November 4, 1985, and mature August 15, 2005.

The range of accepted competitive bids was as follows:

	Yield	Price
Low	10.40%	102.809
High	10.49%	102.046
Average	10.47%	102.215

Tenders at the high yield were allotted 49%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 543	$ 543
New York	10,801,636	4,403,206
Philadelphia	437	437
Cleveland	26,500	26,500
Richmond	11,578	2,578
Atlanta	10,369	8,859
Chicago	881,952	159,442
St. Louis	49,549	49,549
Minneapolis	13,149	13,149
Kansas City	12,780	11,780
Dallas	4,520	3,010
San Francisco	572,981	75,981
Treasury	325	325
Totals	$12,386,319	$4,755,359

The $4,755 million of accepted tenders includes $304 million of noncompetitive tenders and $4,451 million of competitive tenders from the public.

1/ When the bonds become eligible for STRIPS on February 18, 1986, the minimum par amount required will be $800,000. Larger amounts must be in multiples of that amount.

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TREASURY NEWS

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

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
October 30, 1985

STATEMENT OF JOHN J. NIEHENKE
ACTING ASSISTANT SECRETARY OF THE TREASURY
(DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY
OF THE HOUSE WAYS AND MEANS COMMITTEE

Mr. Chairman and Members of the Subcommittee:

My purpose here today is to discuss the impact of the current debt limit crisis on the investments of the social security funds.

I would like to begin by explaining our policy for investing and disinvesting the social security trust funds under normal circumstances, the departures from our normal policy which have been made during the current debt limit crisis, and our plans to accelerate the disinvestment of the social security trust funds, beginning November 1, 1985, if Congress does not act by that date on debt limit legislation.

Since 1960, investment policy has been to invest daily trust fund receipts in special non-marketable Treasury obligations which mature on the upcoming June 30. On June 30, these maturing securities are redeemed and reinvested in longer term securities. In order to meet current benefit payments, securities maturing on the upcoming June 30 are redeemed, lowest interest rate first.

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When the current June 30 maturities are exhausted, the policy is to redeem securities maturing on the following June 30, lowest interest rate first, and so on.

The Social Security Amendments of 1983 require that the estimated amount of tax receipts which would otherwise be credited to the Federal Old Age and Disability Insurance trust funds as received during the month be credited to the trust funds on the first day of the month. These so-called "normalized tax transfers" are normally immediately invested in Treasury securities, resulting in a like increase in debt subject to limit and an overpayment of interest to the trust funds which by law must be reimbursed to the Treasury. On several occasions since enactment of the 1983 Amendments the Department has delayed investment of the normalized tax transfers in order to avoid exceeding the debt limit. Such delays do not result in a net loss of interest earnings to the trust funds since the trust funds simply reduce their reimbursements to the Treasury at the end of the year. Beginning with September, we have not been able to invest fully the normalized tax transfers.

Unlike the normalized tax transfers, the current debt limit impasse has resulted in an actual loss of interest to several trust funds. As I advised the Subcommittee on Taxation and Debt Management of the Senate Finance Committee in testimony on September 10, beginning September 30 we were unable to fully invest amounts credited to the Civil Service Retirement and Disability Fund, the Military Retirement Fund, and the Federal Supplementary Medical Insurance Trust Fund. Cumulative loss of interest to these funds amounts to about $70 million through October 31.

In the current situation, unless the debt limit is increased or we take extraordinary actions we will run out of cash on November 1. Some members of Congress have suggested that, in order to provide more time for the debt limit debate, we take the extraordinary step of disinvesting trust funds in advance of payment of benefits to permit payment of those benefits starting November 1. Secretary Baker, in the October 22, 1985 letter attached to my statement, advised the conferees on the debt limit bill that we are reluctantly prepared to take this action if Congress fails to act to resolve the debt limit impasse. While this will result in a loss of interest to the trust funds, we concluded that this would be preferable to defaulting on social security and other benefit payments.

The maximum amount of trust fund disinvestments in early November is about $17 billion, which is the estimated amount of benefit payments in early November for social security old age and disability benefits (about $15 billion) and civil service and railroad retirement (about $2 billion).

Normally, as Treasury cash is drawn down, from Treasury's total operating cash balance, to make benefit payments, trust fund holdings of Treasury securities are redeemed, or disinvested, by equal amounts. This occurs largely during the first week of the month, although some checks come in later.

Because of the debt limit, however, Treasury is unable to borrow to obtain cash to make benefit payments, or any other payments, beginning November 1, the date on which we expect a

negative cash balance. By disinvesting the Old Age and Disability trust funds on November 1, in advance of benefit payments, Treasury would reduce debt subject to limit (held by the trust funds) and thus be able to issue a like amount of debt in the market, which would raise the cash necessary to make the benefit payments. Accelerated disinvestment of the two social security trust funds on November 1 will result in a loss of interest to the funds of about $9 million, as compared to normal redemption policy.

As I indicated earlier, under normal circumstances in order to make benefit payments we would redeem those trust fund investments which mature on the upcoming June 30, lowest interest rate first, then those maturing June 30, 1987, lowest interest rate first, and so on. Because of our inability to invest fully the normalized tax transfers, the amount of social security investments which mature on June 30, 1986 is insufficient to cover the November benefit payments. Thus it will be necessary to redeem securities maturing in later years. Following our normal redemption policy would mean redeeming some of the 13-3/4 percent bonds held by the social security funds while leaving unredeemed bonds bearing lower interest rates. In order to minimize the adverse impact of the debt limit impasse on these funds, we plan to depart from our policy of redeeming the earliest maturities first. Instead, we plan to redeem the investments with the lowest interest rates first, in which case the 13-3/4 percent bonds, and some of the other high coupon bonds, will not be disinvested.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

Attachment

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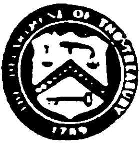


THE SECRETARY OF THE TREASURY
WASHINGTON

October 22, 1985

Dear Bill:

As you participate in the conference on H.J. Res. 372 to increase the debt limit, I want to bring you up to date on where we stand and what actions Treasury will and will not take. We find ourselves in a position where continued Congressional inaction has moved the Treasury's position from sound financial management to unnecessary crisis management. I hope that a full explanation of our projections and intentions will allow responsible action to avoid a costly continuation of this unseemly situation. By so acting, the United States will once again be able to raise funds to meet its lawful obligations without engaging in activities that erode confidence in our financial system.

Contrary to some assertions, Treasury's cash and debt projections and other information provided to the Congress since early September have been very accurate. In testimony on September 10, Treasury informed Congress that failure to pass a debt limit extension would result in our (1) reaching the debt ceiling and (2) becoming unable to invest fully several trust funds starting on September 30, with a consequent loss of interest to those funds. In a series of letters starting September 25, we warned Congress that our cash balances would be virtually exhausted on October 7, reaching a zero or negative balance on October 8. The testimony and letters predicted exactly what actually happened. In those same letters, we stated our strong reluctance to adopt the suggestion of Congressional staff that we use the Federal Financing Bank's non-debt-limit borrowing authority, calling such an action "unprecedented and questionable." We made clear, also, that if the Congress failed to act on the debt ceiling, we would have to choose between the FFB option and an unprecedented United States government default. Faced with Congressional inaction and the prospect of certain default on October 9, we used $5 billion of the FFB authority.

We have taken every action ever used by this Department to raise cash within the debt limit. Moreover, we have taken the additional step of using the FFB's borrowing authority to avoid default. These actions have not been without costs. Since September, the failure of Congress to increase the debt limit has resulted in non-investment of trust funds, costly delays of auctions, and uncertainty throughout the capital markets. Over $50 billion of financing that would otherwise have taken place over several months beginning in September is now confronting the markets. The uncertainty and delay will likely cost the American taxpayer millions of dollars.

Our current cash projections indicate that even if we use the remaining $10 billion FFB borrowing authority, we will have a negative balance on November 1, widening to a negative balance of over $5 billion by November 4. I intend to use the FFB borrowing authority, again reluctantly. But you should be aware that, subject to estimating error, it cannot get us through November 1. The negative numbers starting on November 4, moreover, are so large as to be outside the margin of error.

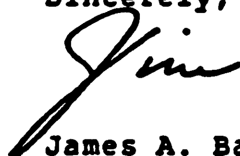
Some Members of Congress have suggested that, in order to provide Congress with yet more time, we should take the further extraordinary step of disinvesting trust funds (social security, military retirement, civil service retirement, and railroad retirement) in advance of payment of benefits to permit payment of those benefits starting November 1. (This option was not available on October 8, as October benefits had already been paid.) Taking this action will result in additional interest loss to the funds and further frustration of our financing schedule. Moreover, it may raise questions in the minds of present and future recipients of trust fund benefits--principally pensioners--about why they have become involved in the debt limit process. Nevertheless, having discussed this matter with the President and the Attorney General, we are reluctantly prepared to take this action on October 31 if Congress once again fails to act to resolve the debt limit impasse.

It is essential that Congress recognize that, even if trust funds were disinvested to avoid a November 1 default, we would certainly default on November 15 unless Congress acted before then to increase the debt limit. That default, which would involve reneging on the principal and interest of United States securities held by both Americans and foreigners, would have swift and severe domestic and international repercussions. No longer would investors view United States securities as riskfree, and a substantial financing price would have to be paid. Any increase in the benchmark Treasury rate would probably adversely affect general interest rates, with negative effects on both the deficit and the economy.

I have spent the past week reviewing the known legal and practical options and have concluded that there are no means available to avoid default that would not be a stark evasion of the debt limit statute--with the possible exception of the sale of United States gold holdings. The President and I are not prepared to take that step because it would undercut confidence here and abroad based on the widespread belief that the gold reserve is the foundation of our financial system, and because the Congress clearly has the power to prevent a default by assuming its responsibility with respect to the debt limit.

I sincerely hope you will take prompt action to avoid further exacerbation of this unnecessary and unfortunate situation.

Sincerely,



James A. Baker, III

The Honorable William H. Gray, III
U.S. House of Representatives
Washington, D. C. 20515

TREASURY NEWS

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

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
October 31, 1985

STATEMENT OF JOHN J. NIEHENKE
ACTING ASSISTANT SECRETARY OF THE TREASURY
(DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here this morning to discuss the use of the Federal Financing Bank to keep the Federal Government within the statutory ceiling on the public debt. You have asked for a discussion of the transactions which were made to stay within the debt limit, the reasons for using the FFB, the other alternatives that were considered, and the consequences of a possible default.

I would like to begin by briefly describing the statutory framework governing the borrowing operations of the Federal Government, including the borrowing activities of the FFB.

Treasury securities are issued under the authority of the public debt statutes (Chapter 31 of Title 31, United States Code). Treasury issues these securities to finance both budget and off-budget deficits, including the borrowing needs of the FFB, and to refund maturing debt. Treasury also issues securities to the various Government investment accounts and trust funds. The Act places a ceiling on the amount of outstanding obligations issued under the Act, certain obligations fully guaranteed as to principal and interest by the United States (largely debentures issued by the Federal Housing Administration in settlement of default claims on FHA-insured mortgages), and participation certificates issued in fiscal year 1968 by the predecessor of the Government National Mortgage Association.

The FFB conducts its borrowing activities under the authority of section 9 of the Federal Financing Bank Act of 1973. Section 9(a) authorizes the Bank to issue its obligations publicly, up to $15 billion outstanding at any one time. Since these obligations are not issued under the public debt Act or guaranteed within the meaning of that Act they are not subject to the public debt limit.

Section 9(b) of the FFB Act authorizes the Bank to issue obligations to the Treasury, and, in turn, authorizes the Treasury to use the proceeds from the sale of securities under the public debt Act to finance its purchases of FFB obligations. Thus, FFB borrowings from the Treasury, funded by Treasury's issuance of its own obligations, increase the debt subject to limit.

The original thinking, as evidenced by the legislative history of the FFB Act, for providing the FFB with dual borrowing authorities was that FFB would normally issue its obligations publicly under section 9(a), and that the authority to borrow from the Treasury under section 9(b) would be used as a backup or for interim financing between market borrowings. However, the initial FFB issue under section 9(a), an 8-month bill in the amount of $1.5 billion in July 1974, was not well received by the market, despite an extensive selling effort. It was then decided that the Bank would henceforth finance its activities by borrowing from the Treasury under section 9(b), thereby reducing the Government's overall interest outlays. As a result, all FFB borrowing from 1975 until this October has been financed by debt subject to the debt limit.

Turning now to the use of the FFB section 9(a) borrowing authority to alleviate the debt limit crisis earlier this month, such use was prompted by inquiries from Congressional staff as to the possibility of having the FFB issue its own securities in the market to raise cash. Yet, our use of the FFB borrowing authority under section 9(a) was reluctant.

First, in letters of October 1, 1985 to the Senate leadership urging prompt action on the debt limit legislation, Secretary Baker advised that use of the FFB for this purpose would raise two significant problems:

-- such action might be contrary to the intent of Congress that the FFB not be used to evade the purpose of the debt limit statute, and

-- an FFB issue in the market would be a very costly means of financing compared to Treasury borrowing.

We concluded that use of the FFB should be avoided for this purpose.

Next, in a letter of October 3 to the Senate Majority Leader, Secretary Baker warned that "unless a debt limit is passed by the Congress and signed into law by the President on or before October 7, 1985 or we take unprecedented and costly measures such as using the Federal Financing Bank borrowing authority, the United States could be in a position of defaulting on its obligations for the first time in history."

Again, in a letter of October 7 to the Senate Majority Leader urging action on the debt limit, Acting Secretary Darman repeated this warning, characterizing use of the FFB as "unprecedented and questionable."

On October 8, the Department advised the Senate leadership of our projection of a zero cash balance for the end of that day, and, absent remedial action, a negative cash balance at the end of the following day, October 9. We also advised that the Department would announce its intention to offer $5 billion of Treasury bills to be auctioned on October 9.

Finally, on October 9, the Department advised the Senate that we would affirm our offer of $5 billion of bills for that day, and that we would use the FFB borrowing authority if necessary to facilitate this transaction. The announcement stated: "Only in the event that Congress fails to raise the current debt limit today will this procedure be used -- in order to assure that the Government can raise cash in order to avoid default."

Mr. Chairman, for your reference, I have attached copies of these letters and announcements to my prepared statement.

The actual use of the FFB borrowing authority was in the nature of a swap -- $5 billion of non-marketable public debt securities held by the Civil Service Retirement and Disability Fund were redeemed. This freed up a like amount of debt limit authority, allowing the issuance of the marketable bills auctioned and issued that day without exceeding the debt limit. The FFB obligations were issued to the fund later that day, without any loss of interest to the fund. Since the interest rate (10.375%) and maturity (June 30, 1986) of the FFB securities issued to the Civil Service Fund are identical to the interest rate and maturity of the redeemed non-marketable securities, and since the rate on FFB obligations redeemed from the Treasury is the same 10.375 percent, there will be no gain or loss to the Civil Service Fund or the FFB as a result of this transaction.

As to other alternatives considered, on October 22 Secretary Baker advised the conferees on the debt limit legislation of the actions taken by this Department to avoid breaching the debt limit, including non-investment of new transfers to the trust funds and costly delays of auctions of marketable Treasury securities. Secretary Baker also advised that we are reluctantly prepared to take the extraordinary step of disinvesting trust funds in advance of payment of benefits to permit payment of those benefits starting November 1. Finally, we have considered, and rejected, sale of United States gold holdings.

As to consequences of default, in testimony on September 10 and in the previously mentioned letters, Treasury has advised Congress that default would mean that recipients of checks for social security, payroll, unemployment, defense contract and other payments, including principal and interest on Treasury securities, would be unable to cash these checks. The full consequences of a default by the United States are impossible to predict and awesome to anticipate.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

Attachments

oOo

THE SECRETARY OF THE TREASURY
WASHINGTON

October 1, 1985

Dear Bob:

As I promised in my letter to you of September 25, this letter will update you on our current cash and debt estimates and thus our need for action by the Senate on legislation to increase the public debt limit.

Our current estimates still show that Treasury's cash balance will be virtually exhausted by October 7, and the situation will deteriorate sharply thereafter. Consequently, it is imperative that the Senate act on the debt limit bill by October 7. Also, as we informed you earlier, as of yesterday we have been unable to comply with statutory requirements to fully invest several trust funds, thus costing them interest earnings.

Congressional staff have inquired as to the possibility of having the Federal Financing Bank issue its own securities directly in the market as a means of raising cash while avoiding direct Treasury issues subject to the debt limit. I believe this approach presents two significant problems.

First, the legislative history of the Federal Financing Bank Act of 1973 raises questions as to whether such action would be contrary to the intent of Congress that the FFB not be used to evade the purpose of the debt limit statute. Second, it is clear that an FFB issue in the market would be a very costly means of financing, compared to Treasury borrowing, especially if such an FFB issue were required to be done on short notice without adequate market preparation. Thus a failure to act by October 7 would cost the taxpayers just as our inability to fully invest the trust funds is costing these funds right now. Hence, I believe we should avoid using the Federal Financing Bank borrowing authority for this purpose.

Accordingly, I continue to urge the Senate to act on the debt limit by October 7.

Sincerely,

Jim

James A. Baker, III

The Honorable Robert Dole
Majority Leader
United States Senate
Washington, D.C. 20510

THE SECRETARY OF THE TREASURY
WASHINGTON

October 1, 1985

Dear Senator Byrd:

As I promised in my letter to you of September 25, this letter will update you on our current cash and debt estimates and thus our need for action by the Senate on legislation to increase the public debt limit.

Our current estimates still show that Treasury's cash balance will be virtually exhausted by October 7, and the situation will deteriorate sharply thereafter. Consequently, it is imperative that the Senate act on the debt limit bill by October 7. Also, as we informed you earlier, as of yesterday we have been unable to comply with statutory requirements to fully invest several trust funds, thus costing them interest earnings.

Congressional staff have inquired as to the possibility of having the Federal Financing Bank issue its own securities directly in the market as a means of raising cash while avoiding direct Treasury issues subject to the debt limit. I believe this approach presents two significant problems.

First, the legislative history of the Federal Financing Bank Act of 1973 raises questions as to whether such action would be contrary to the intent of Congress that the FFB not be used to evade the purpose of the debt limit statute. Second, it is clear that an FFB issue in the market would be a very costly means of financing, compared to Treasury borrowing, especially if such an FFB issue were required to be done on short notice without adequate market preparation. Thus a failure to act by October 7 would cost the taxpayers just as our inability to fully invest the trust funds is costing these funds right now. Hence, I believe we should avoid using the Federal Financing Bank borrowing authority for this purpose.

Accordingly, I continue to urge the Senate to act on the debt limit by October 7.

Sincerely,

Jim

James A. Baker, III

The Honorable Robert C. Byrd
Minority Leader
United States Senate
Washington, D.C. 20510

85-18256

THE SECRETARY OF THE TREASURY
WASHINGTON

October 3, 1985

Dear Bob:

I am writing to emphasize the need for final action by the Congress on debt limit legislation no later than October 7.

As I indicated in my letter to you on October 1, current projections indicate that Treasury's cash balance will be virtually exhausted by October 7 and the situation will deteriorate sharply thereafter.

This means that, unless a debt limit is passed by the Congress and signed into law by the President on or before October 7, 1985 or we take unprecedented and costly measures such as using Federal Financing Bank borrowing authority, the United States could be in the position of defaulting on its obligations for the first time in history.

If the debt limit is not increased by October 7, the Government likely will be unable to meet all of its essential obligations when they fall due including social security checks, payroll checks, unemployment checks, defense contracts, and principal and interest on its securities. The full consequences of a default by the United States are impossible to predict and awesome to anticipate.

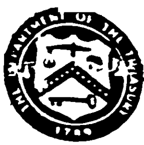
I urge the Congress to pass this legislation at the earliest possible date but under no circumstances later than October 7, 1985.

Sincerely,

Jim

James A. Baker, III

The Honorable Robert Dole
Majority Leader
United States Senate
Washington, DC 20510



THE SECRETARY OF THE TREASURY
WASHINGTON

October 7, 1985

Dear Mr. Majority Leader:

In letters dated September 25, October 1, and October 3, Secretary Baker informed you of our projection that Treasury's cash balance would be virtually exhausted unless either the Congress acts to increase the debt limit by October 7, or we take unprecedented and questionable action to use Federal Financing Bank authority. This letter is to inform you of our latest cash projection -- and to repeat our request for Congressional action today.

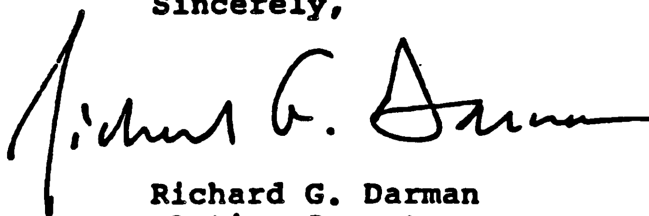
As you know, we have already had to fail to meet certain requirements for the full investment of several trust funds -- costing them approximately $8 million per day. As of this morning, we estimated that cash balances may be zero or negative tomorrow, and will certainly be negative by Wednesday.

When we formally determine that the next day's balance is to be negative, we will need to notify the Federal Reserve. It is my understanding that, upon such notification, the Federal Reserve will then have to notify the banking system not to honor any Government checks or electronic fund transfers. (It is not appropriate or administratively practicable to attempt to distinguish among classes of payment obligations -- favoring some at the expense of others.) Accordingly, all those with federal payment claims -- whether social security recipients or defense contractors or holders of Government securities with interest payments due -- would then be unable to have those claims honored.

We continue to hope that the Congress will act promptly to avoid such an unprecedented failure of the U.S. Government to honor its obligations. If the Congress acts today, we would inform the financial markets by noon tomorrow of our intention to offer Treasury bills for sale on Wednesday. In anticipation of this financing, we and the Federal Reserve would then be able to manage payments on Tuesday so as to avoid a default.

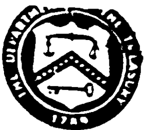
In sum, unless a debt limit is passed promptly by the Congress or we take the unprecedented and questionable measure of using Federal Financing Bank borrowing authority, the United States would be in the position of defaulting on its obligations for the first time in history.

Sincerely,



Richard G. Darman
Acting Secretary

The Honorable Robert Dole
United States Senate
Washington, D. C. 20510



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

October 8, 1985

Dear Mr. Majority Leader:

This note is to provide you with our latest cash projection. As of this morning, we project an ending balance for October 8 (today) of zero; and -- absent remedial action -- a negative ending balance for October 9 (tomorrow).

We continue to hope that the Congress will act promptly to avoid the undesirable alternatives I referred to in my letter of October 7 (either unprecedented and questionable use of Federal Financing Bank authority, or an unprecedented default by the United States). Accordingly, at noon today Treasury will release the following public statement:

> "In hope that the Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5 billion of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m."

In anticipation of action that would allow us to proceed with this financing, we and the Federal Reserve should be able to manage payments so as to avoid a default.

For all the obvious reasons, we again urge that the Congress act promptly to raise the current debt limit.

Sincerely,

Richard G. Darman
Acting Secretary

The Honorable Robert Dole
United States Senate
Washington, D.C. 20510

FOR IMMEDIATE RELEASE October 8, 1985

TREASURY OFFERS $5,000 MILLION OF 78-DAY
CASH MANAGEMENT BILLS

In hope that Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5,000 million of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m.

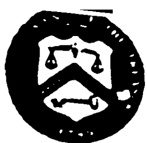
The Department of the Treasury, by this public notice, invites tenders for approximately $5,000 million of 78-day Treasury bills to be issued October 9, 1985, representing an additional amount of bills dated December 27, 1984, maturing December 26, 1985 (CUSIP No. 912794 HQ 0).

Competitive tenders will be received only at the Federal Reserve Bank of New York prior to 12:30 p.m., Eastern Daylight Saving time, Wednesday, October 9, 1985. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender for the issue must be for a minimum amount of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, or at any Federal Reserve Bank or Branch other than the Federal Reserve Bank of New York.

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

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:00 noon, Eastern time, on the day of the auction. Such positions would include bills acquired through "when issued" trading, futures,



THE SECRETARY OF THE TREASURY
WASHINGTON

October 9, 1985

Dear Bob:

The Federal Government's ending balance for October 8 was approximately three (3) million dollars. As of this morning, we project an ending cash balance for October 9 (today) that -- absent remedial action -- would be negative. This is exactly consistent with the forecasts provided to you in our letters of October 7 and 8.

We continue to hope that the Congress will act promptly to provide debt ceiling relief. Faced now, however, with the obviously undesirable possibility of an unprecedented default, we feel obliged to proceed with an auction of Treasury bills on the basis outlined by the following statement, which we intend to make public at 11:00 a.m. this morning:

> "The Treasury Department will conduct the auction of 78-day cash management bills as announced on October 8. We continue to hope that the Congress will act to raise the debt limit in order to allow this auction to proceed to closure without the use of Federal Financing Bank (FFB) authority. If, however, the Congress fails to raise the debt limit, Treasury will use FFB borrowing authority (which is not subject to debt limit) to issue FFB securities to substitute for existing non-marketable Treasury debt. Treasury will redeem the non-marketable debt in an amount sufficient to permit issuance of the Treasury bills being auctioned today. Accordingly, these securities will be backed by the full faith and credit of the United States and will be within the current applicable debt limit. Only in the event that Congress fails to raise the current debt limit today will this procedure be used -- in order to assure that the Government can raise cash in order to avoid default."

As I indicated in my October 1 letter to you, we are reluctant to use the Federal Financing Bank authority in the manner that will be required -- in order to avoid default -- if the Congress does not raise the debt ceiling today. We appreciate that some members of Congress are similarly reluctant to see this FFB authority used. So, I again respectfully urge that the Congress act to relieve the current debt limit today.

Sincerely,

James A. Baker, III

The Honorable Robert Dole
United States Senate
Washington, D.C. 20510

FOR IMMEDIATE RELEASE October 9, 1985

TREASURY AFFIRMS OFFER OF $5,000 MILLION OF 78-DAY CASH MANAGEMENT BILLS

The Treasury Department will conduct the auction of 78-day cash management bills as announced on October 8. We continue to hope that the Congress will act to raise the debt limit in order to allow this auction to proceed to closure without the use of Federal Financing Bank (FFB) authority. If, however, the Congress fails to raise the debt limit, Treasury will use FFB borrowing authority (which is not subject to the debt limit) to issue FFB securities to substitute for existing nonmarketable Treasury debt. Treasury will redeem the nonmarketable debt in an amount sufficient to permit issuance of the Treasury bills being auctioned today. Accordingly, these securities will be backed by the full faith and credit of the United States and will be within the current applicable debt limit. Only in the event that Congress fails to raise the current debt limit today will this procedure be used in order to ensure that the Government can raise cash in order to avoid default.

FOR IMMEDIATE RELEASE October 9, 1985

RESULTS OF TREASURY'S AUCTION
OF 78-DAY CASH MANAGEMENT BILLS

The Treasury has accepted $5,010 million of the $16,375 million of tenders received at the Federal Reserve Bank of New York for the 78-day Treasury bills to be issued October 9, 1985, and to mature December 26, 1985, auctioned today. The range of accepted bids was as follows:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low	7.20%	7.42%	98.440
High	7.25%	7.47%	98.429
Average	7.23%	7.44%	98.434

Tenders at the high discount rate were allotted 48%.

THE SECRETARY OF THE TREASURY
WASHINGTON

October 22, 1985

Dear Bill:

As you participate in the conference on H.J. Res. 372 to increase the debt limit, I want to bring you up to date on where we stand and what actions Treasury will and will not take. We find ourselves in a position where continued Congressional inaction has moved the Treasury's position from sound financial management to unnecessary crisis management. I hope that a full explanation of our projections and intentions will allow responsible action to avoid a costly continuation of this unseemly situation. By so acting, the United States will once again be able to raise funds to meet its lawful obligations without engaging in activities that erode confidence in our financial system.

Contrary to some assertions, Treasury's cash and debt projections and other information provided to the Congress since early September have been very accurate. In testimony on September 10, Treasury informed Congress that failure to pass a debt limit extension would result in our (1) reaching the debt ceiling and (2) becoming unable to invest fully several trust funds starting on September 30, with a consequent loss of interest to those funds. In a series of letters starting September 25, we warned Congress that our cash balances would be virtually exhausted on October 7, reaching a zero or negative balance on October 8. The testimony and letters predicted exactly what actually happened. In those same letters, we stated our strong reluctance to adopt the suggestion of Congressional staff that we use the Federal Financing Bank's non-debt-limit borrowing authority, calling such an action "unprecedented and questionable." We made clear, also, that if the Congress failed to act on the debt ceiling, we would have to choose between the FFB option and an unprecedented United States government default. Faced with Congressional inaction and the prospect of certain default on October 9, we used $5 billion of the FFB authority.

We have taken every action ever used by this Department to raise cash within the debt limit. Moreover, we have taken the additional step of using the FFB's borrowing authority to avoid default. These actions have not been without costs. Since September, the failure of Congress to increase the debt limit has resulted in non-investment of trust funds, costly delays of auctions, and uncertainty throughout the capital markets. Over $50 billion of financing that would otherwise have taken place over several months beginning in September is now confronting the markets. The uncertainty and delay will likely cost the American taxpayer millions of dollars.

Our current cash projections indicate that even if we use the remaining $10 billion FFB borrowing authority, we will have a negative balance on November 1, widening to a negative balance of over $5 billion by November 4. I intend to use the FFB borrowing authority, again reluctantly. But you should be aware that, subject to estimating error, it cannot get us through November 1. The negative numbers starting on November 4, moreover, are so large as to be outside the margin of error.

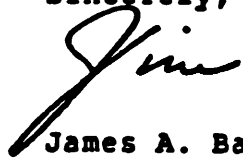
Some Members of Congress have suggested that, in order to provide Congress with yet more time, we should take the further extraordinary step of disinvesting trust funds (social security, military retirement, civil service retirement, and railroad retirement) in advance of payment of benefits to permit payment of those benefits starting November 1. (This option was not available on October 8, as October benefits had already been paid.) Taking this action will result in additional interest loss to the funds and further frustration of our financing schedule. Moreover, it may raise questions in the minds of present and future recipients of trust fund benefits--principally pensioners--about why they have become involved in the debt limit process. Nevertheless, having discussed this matter with the President and the Attorney General, we are reluctantly prepared to take this action on October 31 if Congress once again fails to act to resolve the debt limit impasse.

It is essential that Congress recognize that, even if trust funds were disinvested to avoid a November 1 default, we would certainly default on November 15 unless Congress acted before then to increase the debt limit. That default, which would involve reneging on the principal and interest of United States securities held by both Americans and foreigners, would have swift and severe domestic and international repercussions. No longer would investors view United States securities as riskfree, and a substantial financing price would have to be paid. Any increase in the benchmark Treasury rate would probably adversely affect general interest rates, with negative effects on both the deficit and the economy.

I have spent the past week reviewing the known legal and practical options and have concluded that there are no means available to avoid default that would not be a stark evasion of the debt limit statute--with the possible exception of the sale of United States gold holdings. The President and I are not prepared to take that step because it would undercut confidence here and abroad based on the widespread belief that the gold reserve is the foundation of our financial system, and because the Congress clearly has the power to prevent a default by assuming its responsibility with respect to the debt limit.

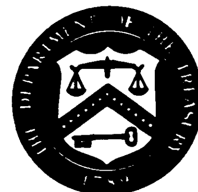
I sincerely hope you will take prompt action to avoid further exacerbation of this unnecessary and unfortunate situation.

Sincerely,



James A. Baker, III

The Honorable William H. Gray, III
U.S. House of Representatives
Washington, D. C. 20515

TREASURY NEWS 

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

FOR IMMEDIATE RELEASE
November 5, 1985

Contact: Andy Montgomery
566-2780

REVISED MEDIA ADVISORY

Secretary James A. Baker, III, will announce the nationwide conversion of U.S. government checks from punched-card checks to multicolored paper checks on November 8 at 11:00 a.m. (Please note time change.)

The Secretary will announce for the first time new security features of the check which will reduce check alterations and counterfeiting.

A press briefing by Financial Management Service officials will follow immediately. The announcement and briefing will be held in the Cash Room of Main Treasury.

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B-341

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 1, 1985

CONTACT: Art Siddon
566-5252

STATEMENT OF TREASURY SECRETARY JAMES A. BAKER, III

Secretary of the Treasury James A. Baker, III said today:

"The Social Security Act designates the Secretary of the Treasury as Managing Trustee of the Social Security Trust Funds, and by its terms, provides that 'public debt obligations [held by the Trust Funds] may be redeemed' by the Managing Trustee in order to produce funds used to pay recipients. Consistent with these statutory authorities, and as I stated in an October 22 letter to all House and Senate debt limit conferees, if Congress fails to act on the debt limit today, I will reluctantly accelerate redemption of trust fund securities to ensure that recipients receive their November payments. Redemptions of trust fund securities will be in an amount equal to November payments from those trust funds.

"I recognize that accelerated redemption of these obligations, while clearly within my legal authority, will disadvantage the trust funds because it will result in a loss of interest to these funds. However, I am prepared to authorize this action in order to assure that all who are scheduled to receive payments from the trust funds are paid and that the federal government does not default. I hope that Congress meets its obligations and passes a debt limit today."

B-342

TREASURY NEWS

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

FOR IMMEDIATE RELEASE November 4, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $7,209 million of 13-week bills and for $7,208 million of 26-week bills, both to be issued on November 7, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 6, 1986			:	26-week bills maturing May 8, 1986		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.16% a/	7.39%	98.190	:	7.25%	7.63%	96.335
High	7.23%	7.47%	98.172	:	7.31%	7.70%	96.304
Average	7.21%	7.45%	98.177	:	7.30%	7.69%	96.309

a/ Excepting 1 tender of $5,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 9%.
Tenders at the high discount rate for the 26-week bills were allotted 85%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 47,670	$ 47,670	:	$ 42,930	$ 42,930
New York	16,873,675	6,087,525	:	15,917,430	5,646,280
Philadelphia	37,465	37,465	:	21,005	21,005
Cleveland	60,725	60,725	:	63,825	60,075
Richmond	48,660	48,660	:	79,715	68,965
Atlanta	55,195	55,195	:	85,365	82,365
Chicago	1,425,375	132,025	:	1,543,835	414,035
St. Louis	91,485	51,485	:	81,630	41,630
Minneapolis	39,640	14,640	:	43,100	39,350
Kansas City	72,225	72,225	:	84,025	83,725
Dallas	51,335	41,785	:	36,200	26,200
San Francisco	1,456,655	216,535	:	1,776,980	295,430
Treasury	343,220	343,220	:	386,445	386,445
TOTALS	$20,603,325	$7,209,155	:	$20,162,485	$7,208,435
Type					
Competitive	$17,788,105	$4,393,935	:	$17,012,425	$4,058,375
Noncompetitive	1,218,195	1,218,195	:	995,660	995,660
Subtotal, Public	$19,006,300	$5,612,130	:	$18,008,085	$5,054,035
Federal Reserve	1,418,025	1,418,025	:	1,450,000	1,450,000
Foreign Official Institutions	179,000	179,000	:	704,400	704,400
TOTALS	$20,603,325	$7,209,155	:	$20,162,485	$7,208,435

1/ Equivalent coupon-issue yield.

TREASURY NEWS

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

FOR RELEASE AT 11:00 A.M. November 4, 1985

TREASURY OFFERS $3,000 MILLION OF 142-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $3,000 million of 142-day Treasury bills to be issued November 5, 1985, representing an additional amount of bills dated September 26, 1985, maturing March 27, 1986 (CUSIP No. 912794 JY 1).

We continue to hope that the Congress will act to raise the debt limit in order to allow this auction to proceed to closure without the use of Federal Financing Bank (FFB) authority. If, however, the Congress fails to raise the debt limit, Treasury will use FFB borrowing authority (which is not subject to the debt limit) to issue FFB securities to substitute for existing nonmarketable Treasury debt. Treasury will redeem the nonmarketable debt in an amount sufficient to permit issuance of the Treasury bills being auctioned tomorrow. Accordingly, these securities will be backed by the full faith and credit of the United States and will be within the current applicable debt limit. Only in the event that Congress fails to raise the current debt limit by Tuesday, November 5, 1985, will this procedure be used.

Competitive tenders will be received only at the Federal Reserve Bank of New York prior to 11:00 a.m., Eastern Standard time, Tuesday, November 5, 1985. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender for the issue must be for a minimum amount of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, or at any Federal Reserve Bank or Branch other than the Federal Reserve Bank of New York.

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

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 10:30 a.m., Eastern time, on the day of the auction. Such positions would include bills acquired through "when issued" trading, 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.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank of New York in cash or other immediately-available funds on Tuesday, November 5, 1985. 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, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars may be obtained from any Federal Reserve Bank or Branch.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M. November 5, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $14,400 million, to be issued November 14, 1985. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of $14,350 million. 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 12, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately $7,200 million, representing an additional amount of bills dated August 15, 1985, and to mature February 13, 1986 (CUSIP No. 912794 JS 4), currently outstanding in the amount of $7,459 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $7,200 million, representing an additional amount of bills dated May 16, 1985, and to mature May 15, 1986 (CUSIP No. 912794 KF 0), currently outstanding in the amount of $8,550 million, the additional and original bills to be freely interchangeable.

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.

The bills will be issued for cash and in exchange for Treasury bills maturing November 14, 1985. Tenders from Federal Reserve Banks for their own account 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. Federal Reserve Banks currently hold $1,576 million as agents for foreign and international monetary authorities, and $2,803 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

B-345

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 the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. 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 5, 1985

RESULTS OF TREASURY'S AUCTION
OF 142-DAY CASH MANAGEMENT BILLS

The Treasury has accepted $3,004 million of the $11,765 million of tenders received at the Federal Reserve Bank of New York for the 142-day Treasury bills to be issued November 5, 1985, and to mature March 27, 1986, auctioned today. The range of accepted bids was as follows:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low	7.22%	7.54%	97.152
High	7.28%	7.60%	97.128
Average	7.25%	7.57%	97.140

Tenders at the high discount rate were allotted 46%.

B-346

TREASURY NEWS

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

For Release: 11:00 a.m., EST
November 8, 1985

Contact: Art Siddon
566-5252

Andy Montgomery
566-2780

TREASURY SECRETARY BAKER ANNOUNCES GOVERNMENT CHECK CONVERSION AND INCREASED CHECK SECURITY

WASHINGTON, D.C., November 8, 1985-- Secretary of the Treasury James A. Baker, III, announced plans today for nationwide conversion of the 40-year-old green punched card check to a new multi-colored paper check that will save the taxpayers $6 million annually and be far more difficult to alter or counterfeit.

The first major phase of the conversion will take place December 3, Secretary Baker said, when more than 20 million Social Security beneficiaries who receive their payments by mail will receive the new check. Ultimately, some 115 million Americans who receive checks will be affected. The conversion of some 600 million checks will be completed during 1986.

"We're changing the check because the punched card technology is obsolete, and punched cards are no longer consistent with modern banking practices," Baker explained. "We also wanted a more secure check--one that is more difficult to alter or counterfeit."

The Secretary said the conversion embodies the Administration's goals of modernizing Government, cutting costs, and embracing public-private sector initiatives.

Baker said the new check, featuring the Statue of Liberty, will contain numerous new security features, "which will help put check counterfeiters and alterers out of business." Among the features:

1. The back of the check contains a pattern of "USA" repeated over the entire check in non-reproducible blue ink, except for the area above the endorsement line. The endorsement line itself is a series of "USA" when magnified. The pattern on the back of the check becomes invisible when microfilmed. The hidden word "VOID" appears when the check is photocopied.

2. Safety paper used in the check will show a positive and obvious chemical reaction upon any attempt at alteration of writing on the paper surface, using ink eradicators, mechanical erasures, etc.

3. Stains will appear in the name of the payee or in the amount printed on the check if an attempt is made to alter the check in these areas.

Baker said the security aspects of the new check had been under study for several years.

Baker said the paper check conversion is good news for taxpayers. Because of lower paper and storage costs, the new check will save taxpayers $6 million annually.

The paper check conversion is being conducted by the Treasury's Financial Management Service, headed by Commissioner W. E. Douglas. Baker said the Treasury Department is making the announcement of the national conversion to the new check to avoid confusion on the part of check recipients and persons working in financial and retail institutions which cash the checks.

"We don't want anybody to be confused by the change, or be skeptical about the check's authenticity," he said.

Douglas said that following the Social Security conversion in December, Internal Revenue Service tax refunds will be issued on the new checks beginning in February. On April 1, 1986, checks disbursed for Supplemental Security Income, Civil Service Retirement, Railroad Retirement, and Veterans benefits will change, as well as most payments for Federal employees and vendors.

Douglas said the Financial Management Service has the responsibility for issuing 500 million Government checks; an additional 100 million are issued by more than 1,000 non-Treasury disbursing offices, such as the Department of Defense.

The new check's colors range from light blue to pale peach. It features two illustrations of the Statue of Liberty, a full-length engraving on the left and a muted close-up of her head and torch on the right.

TREASURY NEWS

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

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
November 6, 1985

STATEMENT OF JOHN J. NIEHENKE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY (FEDERAL FINANCE)
BEFORE THE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
OF THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

Madame Chair and Members of the Subcommittee:

I welcome this opportunity to appear before you this morning to discuss the continuing efforts of the Treasury Department and of the Secretary of the Treasury to assure persons receiving benefits and other payments from the United States that their payments will be made and honored notwithstanding Congressional failure to agree on a debt limit increase. I must emphasize that we can continue to provide such assurances only through November 14, by which date Congress must act on the debt limit bill to avoid default.

On September 10, when I testified before the Senate Finance Committee urging that the debt limit bill, H.J. Res. 372, as passed by the House, be enacted prior to September 30, I stated that "without an increase in the debt limit by that date, investment of the Civil Service Retirement and Disability Fund in Treasury securities will have to be delayed to avoid exceeding the debt limit." I estimated that the cost of the delay to the Civil Service and two other funds would total approximately $8 million per day.

As the Chair is aware, funds other than Civil Service have also been adversely affected, and, moreover, our ability to operate the finances of the United States on a routine and predictable basis has been sorely strained. It is the obligation of the Secretary of the Treasury to reconcile his responsibility not to issue debt in excess of the debt limit with his concurrent obligation to manage responsibly the finances of the United States, including in particular the timely payment of benefits for a number of programs for which he serves as fund manager. In balancing these responsibilities, the Secretary has made decisions based on four guidelines: (1) avoid an unprecedented default on obligations of the United States; (2) ensure that recipients of benefit payments receive their payments when expected; (3) minimize, to the extent possible, the costs to the various funds administered by Treasury of actions taken, and (4) stay within the debt limit.

I can report to you today that, in spite of numerous and complex problems, Treasury has, to date, managed to avoid a default, ensured that recipients of monthly payments have been paid on time, minimized the cost of actions necessary to make payments on time, and stayed within the debt limit. I must caution, however, that we are running out of time. Continued delay in passing a debt limit bill is unacceptable. I trust today's testimony, and testimony I will give tomorrow, will clarify what we have done and reassure you and the American public that our actions have not jeopardized the solvency of any

trust funds. But I must point out that only a prompt passage of a debt limit bill will relieve the unnecessary and unfortunate anxiety that recipients of payments from these funds are experiencing.

The Civil Service Retirement and Disability Fund is established by section 8348 of title 5, United States Code. The Secretary of the Treasury is directed to take certain actions with respect to the fund, including receiving monies and investing "such currently available portions of the Fund as are not immediately required for payments from the Fund." The investments are to be made in special obligations of the Treasury, at an interest rate set monthly on the basis of a statutory formula. Unlike other trust fund statutes, the Civil Service fund statute does not explicitly provide for redemption of Fund investments in order to pay benefits. However, the statute does appropriate monies in the Fund for payment of benefits and administrative expenses. Since benefits cannot be paid unless investments either mature or are redeemed, it is obvious that the Secretary's authority to invest also contemplates redemption.

The Civil Service fund has two major sources of income--periodic payments from agencies in respect of employee salaries and lump sum payments at the end of the fiscal year in respect of unfunded liabilities. When Treasury is unconstrained in its ability to issue new debt to the Fund, all this income is

immediately invested in Treasury securities. At the same time, both benefit payments and repayments of contributions to departing employees must be made from the Fund. The payments vary from month to month, but are generally on the order of $2 billion per month. When payment checks or electronic funds transfers are presented to Treasury for payment, payment is made from the Treasury general cash account and investments of the Fund are redeemed to reimburse the Treasury. The vast bulk of these redemptions occur during the first ten days of each month. Throughout August and in September until September 30, the Fund was invested and redeemed as usual; there were no non-investments or early redemptions.

Because of the relatively small scale of the daily transfers, and the concurrent redemptions, we have until now been able fully to invest the <u>daily</u> transfers. However, as I warned in my September 10 testimony, the failure to enact an increased debt limit by September 30 has meant that a portion of the annual lump sum payment to the Civil Service fund has not been invested. Treasury transferred to the Fund approximately $17 billion in respect of unfunded liabilities on September 30, on which date Treasury was already at the debt limit. Therefore, we could not invest the $17 billion at that time. I want to emphasize that the <u>transfer</u> was made, it was only the <u>investment</u> that was delayed. Except for the interest loss discussed below, the principal amount of the fund is fully as large as it would have been had the increased debt limit been passed before September 30.

The Civil Service fund, unlike the Social Security Trust Funds, does not operate under an advance investment "normalized tax transfer" system. Therefore, as I stated in September and as Secretary Baker reiterated in an October 1 letter, when the Fund is uninvested, it loses interest. Because of this interest loss, as debt limit capacity became available during October (through redemptions to pay benefits), the Fund, along with other interest-losing funds, was partially invested. By the end of October, over $12 billion of the $17 billion transferred on September 30 (in addition to the daily transfers) had been invested. Moreover, because of the structure of the Fund's portfolio, redemptions to pay benefits during October were able to be made fully out of short-term and low-yield longer term obligations, avoiding the redemption of any higher-yielding long-term obligations. We estimate that the October interest loss to the Civil Service fund because of delayed investments and non-investment was approximately $55 million.

In September and October, Treasury's cash balances were sufficient to permit the payment of benefits <u>followed by</u> redemption of obligations held by the Fund, as is normal Treasury operating practice. However, as of the close of business on October 31, Treasury's cash balance was only $1.8 billion (compared to a normal cash balance on that date of between $10 and $20 billion and a minimum desirable level of $5 billion). Treasury estimated that checks and electronic funds transfers presented for payment the next day would be in excess of $10

billion, including approximately $1.4 billion of Civil Service benefit payments and $6.9 billion of Social Security benefit payments. November 1 revenues were estimated to be less than $3 billion. A similar situation was projected for November 4.

In order to raise the necessary cash to make sure benefits could be paid, on October 29 and 30 Treasury auctioned obligations in the amount of $13 billion to be issued on November 1, and on October 31, Treasury auctioned an additional $4.75 billion in obligations to be issued on November 4. Although Treasury hoped that the new debt could be issued under an increased debt limit, an increase was not enacted. Therefore, Treasury proceeded to redeem fund obligations only in an amount equal to November benefit payments in order to be able to raise cash by issuing the new obligations while staying under the debt limit. Because cash flows are uncertain within a wide margin, Treasury needed to accelerate the redemptions. Thus, $1.513 billion in securities were redeemed from the Fund on November 1, $198 million was redeemed on November 4, and $52 million is expected to be redeemed on November 8. Under normal circumstances, $1.4 billion would have been redeemed on November 1, $225 million on November 7 and $151 million on November 8. We estimate that the interest loss to the Fund from the early redemption is approximately $404,000.

I wish to assure you that the securities redeemed on November 1 and 4 were short-term securities. Therefore, the

redemption will have no adverse consequence for the Fund's portfolio. Finally, I wish to assure you that Treasury will of course comply with section 273 of H.J. Res. 372 if it is enacted into law. That section provides for issuance of securities and transfers of funds to relieve the Civil Service and other funds of losses since September 1 resulting from the debt limit impasse.

The debt limit impasse has put us all in the position of facing choices we would rather not face. The Secretary has recently been faced with choosing between defaulting on all United States obligations, including beneficiary payments, or advancing the redemption of trust fund obligations to pay those benefits. He chose the latter course to ensure that millions of Americans would continue to receive their benefits in a timely fashion.

That completes my formal statement. I will be happy to answer any questions you may have.

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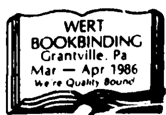
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